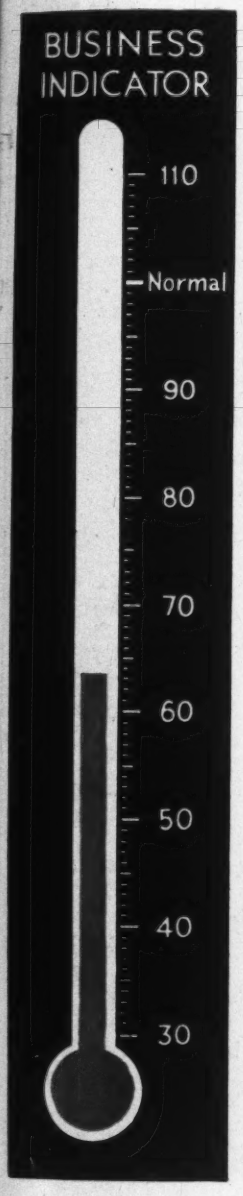
THE BUSINESS WEEK

FEB 3, 1932



No indications of general increase or decrease in business activity are apparent in the week-to-week records since the beginning of the year . . . . Steel production has shown about the usual seasonal rise under stimulus of increasing automobile production, but steel demand from other sources continues slack. Carloadings and electric power output have not improved. Construction is being further curtailed by public economy waves which are increasing unemployment . . . . On the whole, evidence that December or January may have marked the turning point is still uncertain . . . . Securities markets are still listless, facing unfavorable earnings reports and lacking evidence of early business improvement . . . . Commodity prices show no sustained strength . . . . Attention is now centered on credit factors, and business hopes turn on the effective operation of the Reconstruction Corporation . . . . After two years of delay the folly of deflation is now officially recognized and efforts to stimulate credit expansion are under way . . . . But the problem of inducing expansion through ordinary banking channels has become more complicated and difficult . . . . It is becoming clearer, that mere maintenance or mild inflation of security prices cannot in itself assure increased employment, resumed buying and business recovery. No inflationary effort can be effective in these respects which does not directly affect commodity prices, particularly raw materials and farm products . . . . For this purpose direct currency expansion in consumption channels appears to an increasing number of people a necessary supplement to credit expansion to support security values, and congressional discussion is turning in this direction.

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McCASKEY SYSTEMS *for* COST CONTROL

THE BUSINESS WEEK (with which is combined The Magazine of Business) February 3, 1932. No. 126. Published weekly by McGraw-Hill Publishing Company, Inc., 330 West 42d Street, New York, N. Y. James H. McGraw, Chairman of the Board; Malcolm Muir, President; James H. McGraw, Jr., Vice-President & Treasurer; C. H. Thompson, Secretary. $7.50 per year, in U.S.A. and possessions; $10.00 or £2.10s. per year in all foreign countries. 20c. per copy. Entered as second-class matter February 15, 1930, at the Post Office at New York, N.Y., under the act of March 3, 1879. Printed in U.S.A. Copyright 1932 by McGraw-Hill Publishing Company, Inc.

This Business Week:

Wash

Senato lass, once the prophe ec ne the fundamentalist finance. His long-awaited modern ation o he banking structure tu s out be reactionary deflation sguised as relief. Necessary and desirable sions in the bill are likely to go by the board in the fight to follow. *(p. 5)*

Marketing

Many m chandising tears have been shed ove our lost export market (and with mounting nationalism it will probably stay lost); here are the facts and figures on the home market, and a hint of the rewards possible could the whole country attain even the present average American standard of living. *(p. 13)*

New York's furniture show seconds the Chicago motions: novelties are the best sellers; lowered prices make customers look for value, too. *(p. 14)*

Automobiles

Production and sales still hesitate, waiting to see what Ford will do. Model B—the 4—is due in March; the 8 is delayed. *(p. 17)* Studebaker helps the good salesmen to tide themselves over the lean winter months. *(p. 17)*

Finance

Senator Johnson's temperance talk on the horrors of Demon Internationalism fails to mention that investors in domestic as well as foreign securities are suffering from hangovers acquired in the same American bar; fails to see that the real question is the ultimate responsibility of the caterer to his customers. *(p. 26)*

Some communities have refused to stand by and see their financial situations shaken into insolvency; one stopped the gold rush by declaring a holiday; others have declared martial l on money. *(p. 6)*

Reconstructive moves have halted hoarding, but have not stopped credit contraction. *(p. 37)*

Employees' Stock

Employers are seeking ways to keep, at current low quotations, the goodwill they sought when they encouraged employee stock ownership. Despite present difficulties, they believe in the principle. *(p. 18)*

Soft Drinks

With tax-makers eyeing all business for new sources of revenue, the bottlers are trying hard to look inconspicuous. Soft drink taxes, however, have proved only mildly successful, with nuisance great and income small. *(p. 22)*

Construction

Politicians, shifting from wild expenditures to equally wild economies, have aroused alarm about public works projects and their dependent employment relief. Curtailment is apparent in many localities but by no means general. *(p. 7)*

Builders want to bring official wage scales down to match actual wage payments, end irregular bidding. Unions, facing real unemployment, find it hard to say no to realistic wages. *(p. 8)*

New York contractors are asking the state to license them to enforce fair business practices. *(p. 7)* Realtors have entered the last round of their fight for honest appraisals. *(p. 7)*

Development of the small house market awaits a new kind of construction involving a new conception of housing requirements that will substitute factory fabrication for costly work on the lot. Experiments with new materials on more expensive houses are hopeful. *(p. 24)*

Foreign

Politicians, vote-minded, could not get together at Lausanne; bankers, practical-minded, knew a bankrupt when they saw one, extended loans to keep Germany a going concern. *(p. 28)*

With world markets closed to them, the Germans are trying to finance their Soviet trade despite the handicap of internal crisis. *(p. 30)*

Provisional extension of the "standstill agreement" eases the European situation but reparations remain to be faced. *(p. 31)*

Transportation

Motor truck operators muster their forces to fight "unnecessary, unwanted, and premature" federal regulation. *(p. 9)*

Buses are now important to electric railway operation; taxis are being included to form complete urban transport service. *(p. 9)*

The I.C.C. realizes that as long as shippers have something to sell to railroads that want their traffic, prohibition of reciprocal buying will be as hard to enforce as Prohibition. *(p. 9)*

Those combination excursions with sleeping car privileges at reduced rates brought so much new traffic to the railroads that they will continue to feature them. *(p. 10)*

Cross Section

New England expresses its views on present problems of business. *(p. 14)*

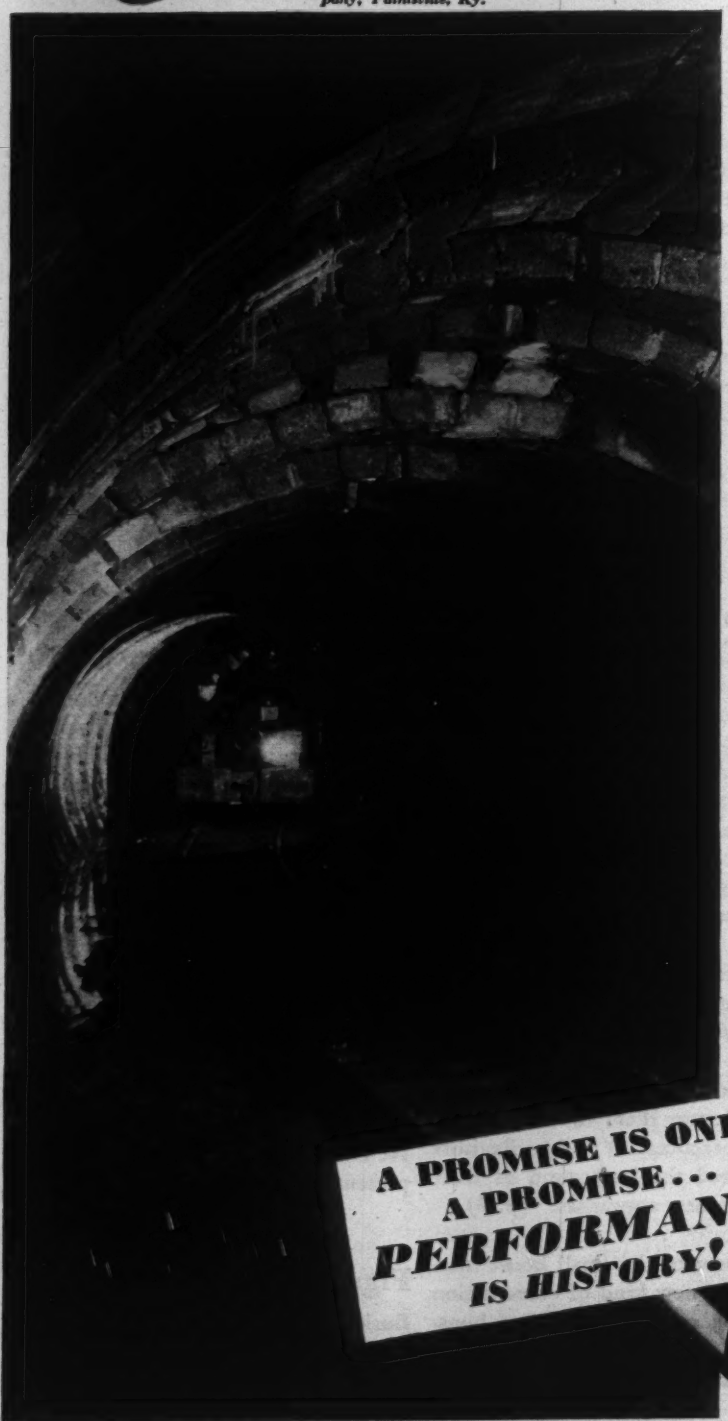
Figures

Business activity, down a point, drags at the same low level. Factors in the index show little change. *(p. 35)*

SEVENTEEN YEARS

IN A COAL MINE!

Actual photograph of SKF Bearing (type now obsolete) that served for seventeen years in a five-ton Jeffrey locomotive in the mines of the North East Coal Company, Paintsville, Ky.



SKF BEARING UNDER TRYING OPERATING CONDITIONS . . . ESTABLISHES SERVICE RECORD

Seventeen years ago this SKF Bearing went into a five-ton Jeffrey mining locomotive in the mines of the North East Coal Company, Paintsville, Ky. It operated steadily. There were no protracted shut-downs to make its job easier. And when finally, at the rare old bearing age of seventeen years, it was removed, it was not due to breakage or chipping, but because it had worn down gracefully.

That sort of SKF performance has convinced American Industry that it is the *use* not the *price* of a bearing that determines real bearing economy. And manufacturers of bearing-equipped products should consider this important fact. The performance of this SKF Bearing was very definitely a contributing factor in the performance of the Jeffrey locomotive of which it was a part.

It does not pay to economize on bearings from any point of view. Usually it costs more to replace a cheap bearing than to buy the best that SKF ever produced. SKF Industries, Inc., 40 East 34th Street, New York, N. Y.

SKF

BALL AND ROLLER BEARINGS

A PROMISE IS ONLY A PROMISE... PERFORMANCE IS HISTORY!

2832

THE BUSINESS WEEK

The Journal of Business News and Interpretation

News of the week ending **January 30, 1932**

Glass Bill Promotes Deflation And Bank Control of Business

Quick protest blocks the Senator's effort to rush his plan through as "emergency legislation"

BEHIND massed technicalities, Senator Carter Glass and his colleagues are attempting both to coerce business to change completely its methods of financing and to revise and revamp banking on a scale not attempted since the Federal Reserve Act in 1913.

Business is to be clubbed into taking the medicine with a financial lead pipe. Banking is to have a pill containing some desirable elements and some consisting of pure personal prejudice forced down its throat, the whole sugar-coated by a plan to relieve depositors of closed banks and provide relief for the harassed directors of distressed ones.

Long Fight Ahead

The bill is the result of 11 months' labor by a subcommittee of the Senate Banking and Currency Committee and its hired technical experts. Attempts to push the measure directly through the entire committee and through Congress were thwarted as soon as its contents became known, and there now seems little likelihood of early passage. What is eventually passed, if anything, probably will look quite unlike the original bill. But so many objections have been raised that the bill may be dropped and general banking legislation abandoned for this session, leaving the stage to piecemeal remedial measures.

Briefly the bill seeks to impose severe restrictions on the use of bank credit in any and all security transactions, to strengthen banking, to make the Federal Reserve system simon pure and to centralize its control in Washington, to control the undesirable practices in banking, to clamp down on speculation, curb New York City banks and the New York Federal Reserve Bank, to provide for emergencies, limit Federal Reserve operation and cooperation abroad.

So stated, the bill's intentions coincide with general desires. The 2 emergency provisions are especially good.

One would permit groups of banks to borrow in an emergency and at penalty rates on mutually endorsed notes secured by otherwise ineligible collateral. The other provides for a relief fund made up by the Reserve and member banks to advance partial payments to depositors in closed banks. This might conceivably be a first step toward deposit guarantee; certainly it would cause depositors to desire Reserve membership for their bank. A separate $200-million appropriation from the Treasury would relieve non-members during the present depression.

The only broadening of eligibility provisions would be the emergency ones. Eligibility would be restricted, on the other hand, in the case of borrowing on government obligations.

But the method by which it attempts to reach the other goals promises trouble for all concerned should it become law. One of the most important troubles would be further drastic deflation.

The club proposed for use on business is drastic restriction of the use of bank credit on securities. The bill provides for limitation of the maximum amount that banks may loan on securities to their customers and in the call market. It would enforce this limitation both by direct ruling of the Federal Reserve Board and by curbing bank borrowing power at the Reserve banks so long as they lend on securities. It would further penalize banks with a higher interest rate when they borrow from the Reserve instead of discounting commercial paper. Member bank security affiliates would submit to examination and publicity, and the amount they could borrow from the commercial bank be strictly limited.

Favors Short-Term Paper

During the last decade or two business has been financing itself more and more by issuing securities. The Glass Bill is designed to force a change in that practice. Under its restrictions, business would be offered a premium to finance by the use of short-term commercial paper, and banks would be forced to urge that method. Which simply means that, whereas business has been gaining some independence from the banks, it would now be forced back under their thumb.

In the attempt to limit speculation the bill would further curb business' use of its funds. Concerns in interstate commerce would be forbidden to lend on collateral and to deposit money with any institutions other than banks. Reserve members would be prevented from lending to corporations that indulged in other practices.

Reserve Board Strengthened

Numerous provisions are aimed at wresting financial power from New York. To accomplish this and enforce the other provisions of the bill the Federal Reserve Board would be given autocratic powers far beyond anything thus far suggested. A Federal Reserve open market committee directly responsible to the Board would regulate all open market operations, and the Board would regulate all foreign negotiations. The Board would determine the amount member banks could lend on securities, would completely reclassify cities as to Reserve requirements, enforce penalties on banks for lending for speculation;

What Congress Did

The Senate and House:

Adopted resolution directing Interstate Commerce Commission to study advisability of 6-hour day on railroads.

The House:

Agreed to conference report on Reconstruction Finance Corporation bill.

Adopted conference report on bill adding $125 millions to capital of Federal Land Banks.

Approved resolution to appropriate $500 millions for purchase of capital stock of Reconstruction Finance Corporation.

Adopted resolution to allot $50,000 for investigation of public utilities ownership.

the Secretary of the Treasury would be removed from the Board presumably as a pernicious influence.

Much higher reserve levels are set up by provisions subjecting time deposits to demand deposit reserve requirements. This would raise required reserves sharply and would thus be strictly deflationary. Only savings accounts limited to $5,000 would have lower reserves and assets behind; these would be segregated. Drastic restrictions are imposed on chain group banks. National banks with more than $1 million capital could operate branches in states where state banks have the privilege. Interest payments to depositors would be restricted, capital requirements raised to 15% of deposits, another deflationary measure. Federal fund dealings would be limited to make the discount rate more effective.

Local Business, Facing Crisis, Takes a Bank Holiday

MANY communities, faced with a local financial crisis, are resorting to desperate measures to halt a "gold rush," restore confidence by fiat. In Urbana, Aurora, and Mendota, Ill., and in Monterista, Colo., the mayors have declared "holidays" to give hard-pressed banks a chance to close their vaults without closing their doors. The ensuing suspension of business, those concerned hope, will be a lesser evil than receivership of the banks.

Freezing by Agreement

During the holidays, bankers do missionary work. In Aurora, 1,000 canvassers got signed promises not to withdraw more than 10% a month from 14,000 depositors, all but 5% in the city. Aurora banks reopened after 5 days with bands and fireworks; money came out of hoarding, and deposits rose $1 million. No bank has closed. In other communities it is too early to judge ultimate effects.

Despite drastic measures, 12 banks closed in Illinois last week, centering in the area around Champaign, some 150 miles south of Chicago. Urbana, seat of the University, adjoins Champaign.

Suspending the Law

Fire fighters at a fire can't be careful about the laws of entry and trespass. Bankers in a "situation," like firemen, feel that the end may justify the means, the emergency justify suspension of that ancient law of banking which is "pay up or close up."

In Bloomington, 50 miles northwest of Champaign, the more familiar plan of defense was used. Banks there, through the Bloomington Clearing House Association, took steps to prevent withdrawals for hoarding. A 60- to 90-day notice was required on savings accounts Checking account withdrawals were limited to 10%, excepting that normal business withdrawals, as for rent, wages, etc., continue without interference. New deposits are not subject to these rules.

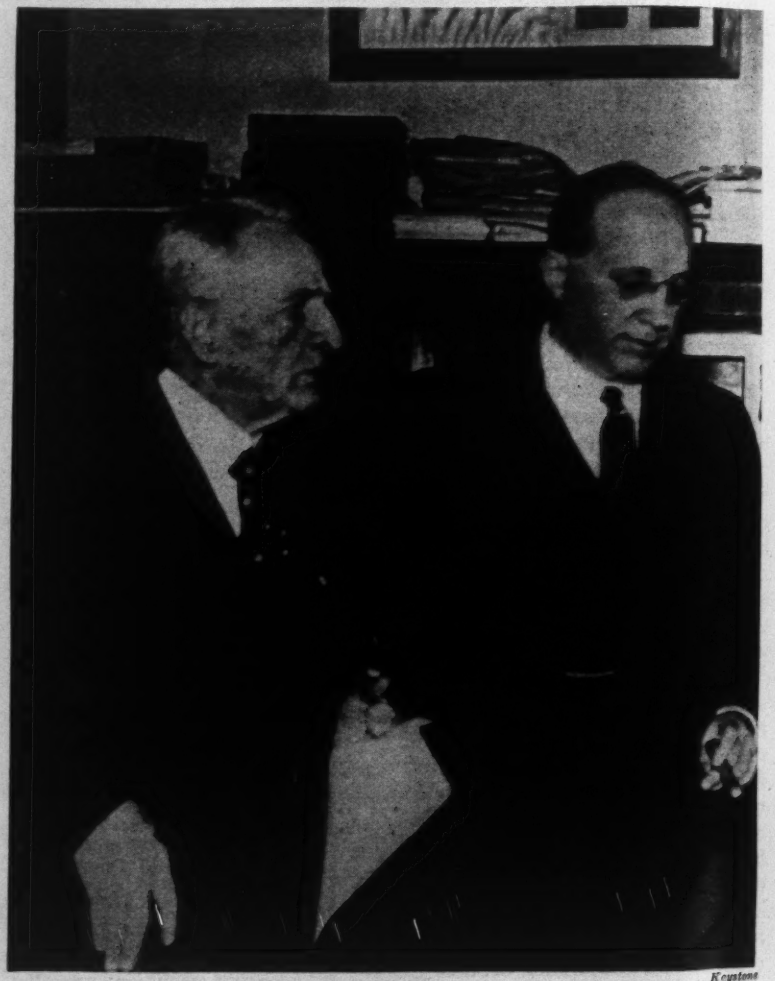
This action is frankly outside the law —justified by the public emergency. The McLean County Bar Association agreed that its members would "refrain from aiding in any way in litigation to obstruct the carrying out of the plan."

Technically, a man still has a right in Bloomington to go in and demand his money from a bank that has its doors open. Practically, if the bank refuses, and no lawyer will take any action, no judge issue any order, and public sentiment and newspapers are aroused against him, he has small chance of enforcing his right.

In several counties in Iowa, the same thing is happening.

During the epidemic of bank closings in that state 7 or 8 years ago, various plans for freezing deposits in going banks were used. Some helped. Others just made it worse in the end.

The aim of banks in many country communities is just to hold on a little while longer in the hope that that will be long enough.



Keystone

RECONSTRUCTIONISTS—*Carter Glass (left), financial watch dog of the Senate, Eugene Meyer, chairman of the Federal Reserve, and Charles G. Dawes, president-to-be of the Reconstruction Corp., go into a huddle*

"Suspense Calendar" Threatens Public Construction Programs

Heavy curtailments have received most publicity but many cities are going ahead despite difficulties

WIDE circulation of the news that some states, cities, and other local government units are sacrificing public construction schedules to what they consider the necessities of their straitened financial situations (*BW—Jan20'32*) has given rise to considerable alarm. Fear has been expressed as to the effect on business and employment. There have been reports that officials are overlooking these effects in their appreciation of the political value of economy gestures.

Investigation shows that the tendency toward curtailment of public construction is widely evident but by no means general. The highly publicized news of the distressing situations in New York, Chicago, and Philadelphia is offset by reports from other cities in which construction activities are continuing, programs will be at least as heavy as those of 1931.

Retrenchments in New York—state and city—will undoubtedly swell unemployment. Suggestions for state economies include the withholding of $7 millions scheduled for new road construction, $5½ millions for Long Island park improvement. The city has just added $13 millions more to its newly developed "suspense calendar," making a total of nearly $150 millions of projects on which it will postpone work.

New Jersey proposes a 2-year recess on road building and temporary postponement of institutional construction. Governor Cross of Connecticut wants to postpone all projects not essential.

Detroit Braces Up

Three Chicago construction units have forfeited their bonds; city employees have taken pay cuts ranging from 20% to 27%. Detroit city employees were cut and 500 public works employees laid off but plans are being perfected to revoke both actions.

Scattered information on the other side of the picture includes reports that Western states and cities are keeping up their programs. Highway budgets for 11 Western states are above 1931 levels and all work is expected to be completed. No projects of any size are being stopped, perhaps because they operate under biennial budgets most of which are now in their second years.

Cleveland has projects totaling $15 millions for work this year; some are held up by taxpayers' suits now but other large ones are going ahead. The Twin Cities have made no important cuts in their public works programs although many rural communities in that section have slashed expenditures. Delaware has just started a $3-million road-building program. Baltimore has sold $4.2 millions of bonds for general construction work, Rochester $5.6 millions for general improvement purposes. Construction under way in San Francisco will proceed as planned; total for the year will equal that for 1931.

The Portland Cement Association's country-wide survey indicates as many road jobs will be available this year as last.

A complete picture of conditions will be available when the President's Organization for Unemployment Relief completes its survey of 1932 construction projects, now under way. Meanwhile, municipal experts believe most cities can still sell bonds despite their vanishing revenues. Chief basis for this belief is the fact that at least half of the public works projects completed during the last decade were financed from current income.

Move to Build Confidence In Real Estate Appraisals

THE long fight to put appraisal of real estate on a professional basis is about ended. The National Association of Real Estate Boards, at its annual business meeting in Chicago last week, authorized its appraisal division to reorganize itself as a professional society similar to the Institute of Architects or the Institute of Accountants, to draft a list of requirements for membership, and to provide penalties for failure to abide by the professional code. Under the leadership of Philip W. Knistern, New York, organization plans are to be ready for the annual convention in June.

Provision for trustworthy appraisals of real estate has long been needed. The public now is particularly skeptical of current appraisal practice as it sees many defaulted real estate bond issues caused in large part by inflated appraisals made by interested parties. Reliable appraisals should do much to remove the suspicion, now a major deterrant to public participation in real estate transactions.

Under the association plan appraisers will be certified privately but Ohio and Illinois are considering bills to make public certification necessary.

New York Builders Ask State Licensing

NEW YORK builders and contractors want a law. They are tired of trying to enforce fair play in what has become a dirty game. They are convinced that the industry is unable to do its own policing and are asking the state to stop destructive practices with legislation.

As a measure of what they want, they point to California's law licensing

builders and contractors which has already chased out of the business some 8,000 racketeers and incompetents.

The proposed law would make building a matter of public interest, license all contractors and builders just as real estate brokers are now licensed. Anyone willing to show his record could get a license. Rigid control would be gained by suspending or revoking the permits of those who violate the building code, fail to follow specifications, break the labor and safety laws, or run out on unprofitable contracts with a cheery invitation to go ahead and sue.

There would be no suing; malpractice would mean loss of license, and operation without a license becomes punishable by fine and imprisonment.

The industry has designated the Lien Law Revision and Enforcement Association as the active sponsor of the law. Senator Fearon, Republican leader, advised in preparation of the bill, is expected to favor it. No organized opposition has arisen, prospects are good.

Its success points to a possible remedy for the competitive ills of other industries which can show evidence of public interest.

Keystone

HE GOT THE JOB—*Left without banking service, Hammond, Ind., still has enterprising Eddie Groth. Working on small fees, this former bank employee keeps the wheels turning by collecting checks, changing big bills, and storing customers' cash in one of the closed banks' vaults*

Building Trades Apply a Dose of Realism to Wage Scales

BUILDERS and contractors, their workmen and their customers all have an interest in the current effort to bring "official" wages in the building trades down to the level of the wages that are actually being paid.

Building trade employers count on the success of this movement to eliminate price-cutting by competitors who have been winning contracts on bids based on less-than-scale wages through the connivance of workers, sometimes of union officials (*BW—Apr22'31*). They also hope—and have been telling their employees—that putting wages on a realistic footing will bring in business that has been scared off by the height of the official scales upon which conforming contractors have had to figure their bids.

Weakened by Unemployment

The powerfully organized unions, whose percentage of unemployed has risen from 26% to 28% of membership in "normal" 1928 and '29 through 40% in '30 to nearly 60% in December, '31, have been weakening their insistence that there must be no halt in the rise in scales started in 1922, even if those scales obviously do not fit into the present economic picture.

What has been happening under the unruffled surface of the official wage scale in the building trades—particularly during the last half year—is shown by an index which *Engineering News-Record* has built on a composite of actual wages paid to carpenters, bricklayers, plasterers, and ironworkers in a score of building centers. From $1 an hour in 1922 wages rose steadily year by year to $1.38 in 1930, the final jump representing an automatic increase provided for in wage agreements signed during prior years. And until July, 1931, the index of actual wages virtually coincided with the scale. Then actual wages began to drop just as steadily until, last month, the index had had come down to $1.11. There is no indication that it has yet reached bottom. By the end of the year the discrepancy between scale wages and actual wages had opened the door to all sorts of comic bidding with customers left in the dark as to the actual costs on which presumably comparable bids had been figured.

The campaign to end this chaos by the sanitary injection of realism into the wage situation has gained headway as the unions have felt the sting of unemployment. In a score of cities from 1 to 8 building trades have voluntarily accepted scale reductions ranging up to 25%. In Des Moines, Tacoma, Atlantic City, Detroit, Memphis, Denver, Baltimore, New Orleans, and Portland, Ore., at least 3 trades have accepted cuts. In Chicago and New York negotiations headed toward lower scales have been going on for weeks. In Pittsburgh employers have imposed a 25% cut on all building workers.

Bankers Are Interested

The bankers have their fingers in this pie as in so many others—and not only through their interest in financing constructions. With decreased dues and increasing demands for funds to carry on relief work and general organization activities, union leaders have been using their political influence to get bank loans against the promise of repayment out of future dues. Unless the building trades get themselves in shape to expand operations and so restore union finances many of these loans will need the pulmotor of the Reconstruction Finance Corporation.

Truck Operators Call Federal Regulation Premature, Hostile

Emboldened by court decisions, the truckmen unite to fight the I.C.C.'s suggestions

MOTOR truck carriers are getting ready to fight the recommendations for federal regulation of trucks, proposed by the Interstate Commerce Commission's Examiner Flynn (*BW—Jan13 '32*). A nation-wide call to arms has just been sounded by the National Automobile Chamber of Commerce. A united front is in prospect when hearings before the I.C.C. open March 1.

Opposition to federal truck regulation is based on these grounds: (1) Less than 2% of trucks are engaged in interstate commerce, so it is absurd to set up an intricate system of federal control. (2) Neither consumers nor shippers are demanding regulation. (3) The demand comes from railroads, which want to strangle the trucking industry. (4) Regulation would increase shipping costs to the public. (5) A federal regulatory experiment is premature, as state experiments with such laws have not yet shown definitely that they are constitutional, practicable, capable of enforcement, of any protection to the trucker or advantage to the shipper.

Courts Encourage Truckmen

Motor truck carriers have been emboldened in their opposition by the U. S. Supreme Court's decision this week upholding the lower court's injunction against the enforcement of Texas law regulating cotton-hauling trucks. This measure, which the district court pronounced invalid on the ground that it was discriminatory, attempted to oust the trucks from the cotton business by prohibiting highway transportation of uncompressed cotton in quantities of more than 10 bales on any one vehicle.

The trucking industry is also watching developments on the Pacific Coast, where the keen competition between trucks and railroads is causing the state regulatory bodies much worry. To put an end to the chaotic situation in California, that state's Railroad Commission recently started a sweeping inquiry into the whole freight transportation field, which may result in important legislative changes. According to railroad testimony the trouble is due mainly to inequalities in competitive conditions resulting from unequal regulation of different types of carriers.

In the state of Washington, the railroads and certified motor truck lines have just scored their first major victory against "wildcat" truckers. Over a thousand uncertified freight trucks were swept off the state highways as a result of the temporary injunctions granted by the superior courts of Chelan and Spokane counties against vehicles operating without a franchise.

Trolleys, Buses, Taxis Steadily Being Unified

WHILE the trunk line railroads and the interstate motor bus operators continue their warfare, the street railways, aided by local regulatory legislation, have been rapidly adopting the bus and coordinating it with electric railway service.

Result: motor buses now form an important adjunct of electric railway operations, carrying over 1.3 billion passengers a year.

A nation-wide survey made by the *Transit Journal* reveals that electric railways in the United States already control 10,655 buses out of a total of 14,333 in operation in cities of more than 25,000 population. In smaller cities they operate 633 buses, in interurban areas 1,824, bringing the total to 13,115. Bus routes under electric railway control cover 13,138 miles.

Approximately 1,150 new buses were purchased by electric railway companies last year, and larger orders are forecast for 1932. This, while purchases of street and interurban railcars dropped to less than 100 in 1931—lowest year on record—and more than 2,000 cars were scrapped.

Electric railway traffic in 1931, relates the *Transit Journal*, showed only a moderate decline. Passenger business fell off 9½%, revenue about 10%, the larger cut in the latter being due to the inauguration of reduced-rate tickets on some lines.

Expenditures for improvements and maintenance dropped from $339 millions in 1930 to $310 millions—reduction of 8½%—though expenditures for capital accounts increased from $124 millions to $132 millions. A further slight contraction of the total is forecast for this year, but 1932 is expected to bring higher expenditures for power equipment, motor and trolley buses.

Taxicabs also are being joined to electric railway service. There are now 12 cities in the country (and 1 in Canada) where a total of 2,176 taxicabs are operated or affiliated with electric railways. The largest operators are the Philadelphia Rapid Transit with 978 cabs, Public Service of N. J. with 442, Cincinnati Street Railway with 244, Kansas City Public Service with 205, and the United Electric Railways of Providence with 106.

I.C.C. Breaks Away From Its Merger Plan

DESPITE the opposition of several Western and Southwestern railroads, the I.C.C. has authorized Southern Pacific to acquire St. Louis Southwestern (Cotton Belt). This marks the commission's first major departure from its 1929 consolidation plan, which assigned the Cotton Belt to the Illinois Central, and enhances the carriers' hope for revision of the original consolidation scheme for the East.

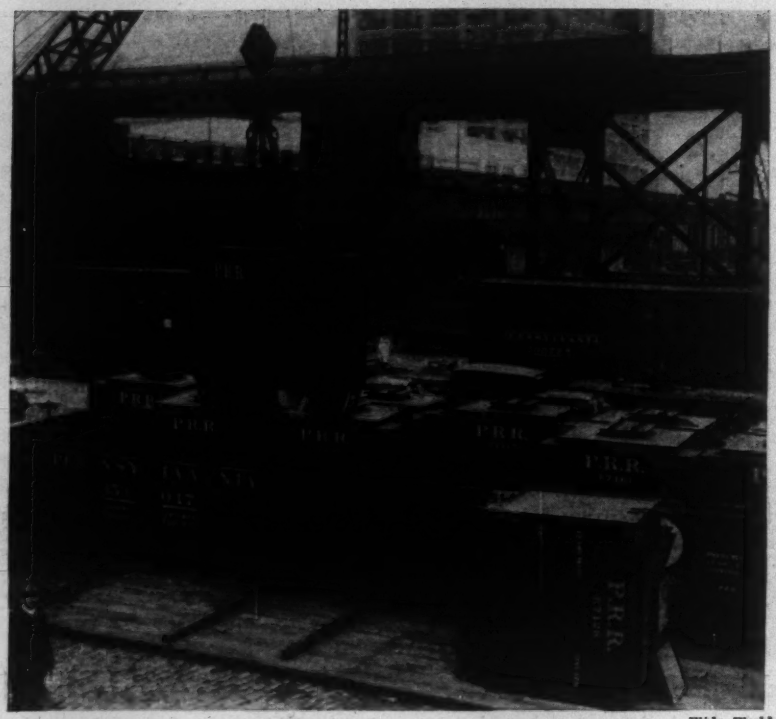
Granted because Cotton Belt depends principally on bridge traffic which, according to I.C.C., Southern Pacific is best situated to furnish, the approval was made subject to several conditions which S. P. is expected to accept.

Reciprocity Remedies Give Little Hope of a Cure

IF shippers are deprived of the right to designate the routing of traffic, and railroads are required to buy their equipment and supplies only on competitive bidding under the Interstate Commerce Commission's supervision, the existing practice of trading purchases for freight traffic (*BW—Oct21 '31; Dec30'31*) is likely to be curbed to a considerable extent.

But even should the necessary legislation be passed—which is uncertain in the face of a strong opposition—complete suppression of the practice is regarded as impossible. The I.C.C. experts, who recommended the measures, realize that reciprocal buying will persist as long as shippers have something to sell to railroads that want freight.

The shippers' right to designate the routing of freight was written into the



Wide World

DUMP CONTAINERS—*The Pennsylvania's new container for sand, cement, similar bulk commodities is the latest addition to its expanded l.c.l. service*

law in 1909. It has proved a strong weapon, especially for large firms, in getting railroad business.

Competitive bidding for railroad orders, with obligation to accept the most favorable bid, is required under the Clayton Act. The law applies, however, only to orders in excess of $50,000 placed with one firm, and it has been nullified by splitting orders into smaller amounts which can be distributed among bidders in proportion to the commercial tonnage that each routes over the purchasing line.

Bargain Sleeper Excursions Bring New Traffic to Roads

RAIL-PULLMAN excursions at bargain rates have proved successful in creating additional business for the railroads; the experiment, started on a number of lines last year, will be continued indefinitely.

This service, inaugurated in April, 1931, marked a significant departure from the time-honored sit-up-all-night excursion. For the first time, "trippers" were not restricted to coaches, could travel in sleeping cars at prices about half of the regular sleeping car fares.

The first excursion, from New York to Pittsburgh, ran 2 trains with 11 sleeping cars, 365 passengers, who spent Sunday in Pittsburgh and returned to New York Monday morning in time for business. So encouraging were the results that 12 more excursions were arranged for the following month. Many of the passengers, it was discovered, had never been in a Pullman before.

The idea was later carried west, and Pullman bargain expeditions left Chicago, St. Louis, Minneapolis, Dallas, Laredo, and El Paso.

During 1931, a total of 104 rail-Pullman bargain excursions were operated, using 617 sleeping cars, in which 18,115 passengers were carried. This makes an average of 29 passengers per car—approximately 3 times the average load in these days of single-occupancy sections and light travel. This traffic represents new business, according to the Pullman Co., which would not have been secured without sleeping car accommodations.

Lake-Rail Coal Rates Undisturbed by I.C.C.

COAL from Southern fields pays 35¢ a ton higher lake-rail freight rates than coal from Northern fields. For many years, Northern operators have battled for a higher differential. Now the Interstate Commerce Commission has refused, 9–2, to disturb the rates. Northern operators still are disgruntled, talk of continuing to fight, but negative decisions of the I.C.C. cannot be appealed to the courts.

Complainants, Pennsylvania and Ohio operators, charged undue preference to mines in the Virginias, Kentucky, and Tennessee. The differential used to be 45¢; it was made 35¢ in 1929 as a compromise to end vicious rate-cutting.

See Advantages Lost

The commission agreed with the Southern operators that technical improvements and wage reductions in Northern fields had entirely overcome the advantages formerly enjoyed by Southern mines, that consequently any increase in the differential would make it difficult for the South to compete on steam coal.

Referring to the compromise rate, the commission said "in the exercise of their managerial discretion and under the stress of competition, carriers often establish rates which we can not require them to establish." When such rates appear as a whole to be in the public interest, they should not "be condemned merely because they are not based on the same distance scale of maximum reasonable rates."

Two Microscopes Are Turned on the Consumer

ORGANIZED attempts to collect specific facts on consumers and consumer-buying habits in various localities, scheduled by 2 widely differing agencies, are expected to produce data of importance to executives responsible for marketing consumer goods.

Under the guidance of the U. S. Department of Commerce, the General Federation of Women's Clubs, representing a membership of 2½ millions, will, at its own expense, study consumer attitude toward delivery of purchases, returned merchandise, and other retail problems. It believes that such effort will lead to a better understanding between merchant and consumer and will point the way to economies which eventually may cut the spread between retailers' cost and selling price.

The second effort is planned in connection with publication of city directories in New York and other large communities, under sponsorship of local emergency unemployment relief committees.

Enumerators recruited from the

ARMOUR Gives High Praise to INTERNATIONAL TRUCKS

ARMOUR & COMPANY provides another chapter in the endless story of International Truck success. For more than fifteen years Armour's have come to International Harvester for trucks. And during 1931—a year of severe stress and cost-cutting economy—Armour's invested in a larger fleet of new Internationals than in any previous year.

As with hundreds of other large-fleet operators and thousands of single International owners, Armour's are pleased with the attractive lines of the modern International models, and they know from long experience that quality and dependability are to be found under the surface.

As for the Service that keeps Internationals on the job, this great packing firm gives credit without reserve. "Truck transportation and hauling efficiency are vital factors with us," says an Armour executive. "We use trucks at hundreds of points the nation over, yet we operate only limited facilities for the purpose of repair and upkeep. We prefer to depend on the truck manufacturer for the service, and we say without hesitation that the International Harvester readiness to serve is unequalled. International Truck service goes a long way in helping us to render our own vital service."

When you next make a truck investment put your trust in Internationals, and in the celebrated service that stays with these trucks. You will find cordial and lasting cooperation at an International branch—and any International dealer will meet you in the same spirit.

INTERNATIONAL HARVESTER COMPANY
606 S. Michigan Ave. OF AMERICA (INCORPORATED) **Chicago, Illinois**

"International Harvester Truck Service is First in The United States"

—From a statement by an Armour executive

The International branch at Detroit, where Armour & Company also has one of its many branches. International Harvester maintains the largest Company-owned truck service organization in the world, with branches at 163 points in the United States and 20 in Canada.

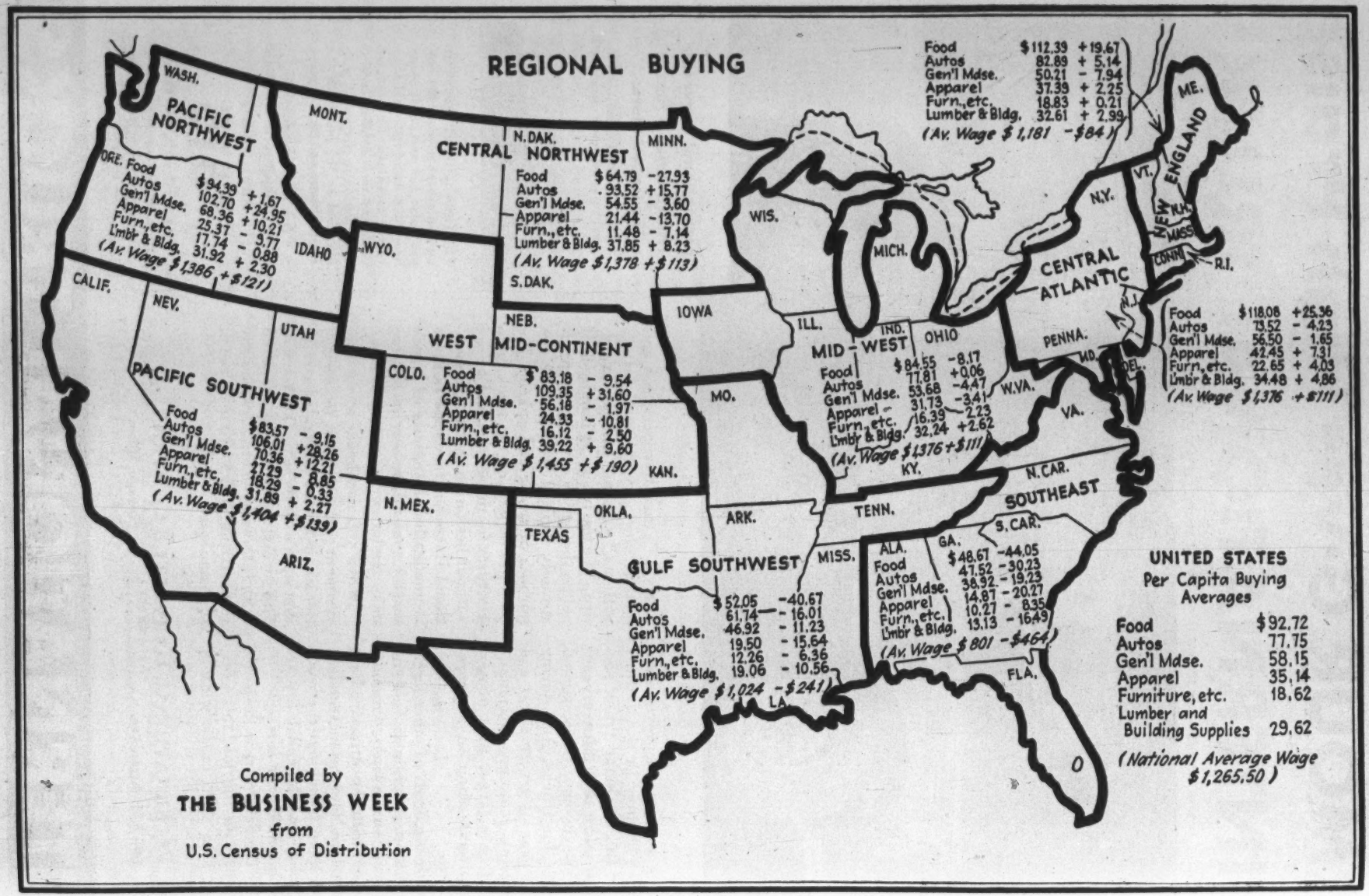
Ask for demonstration of the 1½-ton, 4-speed Model A-2

Now reduced to

$615

for the 136-inch Wheelbase Chassis f.o.b. factory. Other sizes range from ¾-ton to 5-ton.

INTERNATIONAL TRUCKS



WHAT, HOW, AND WHERE WE BUY—*This is the national market. Climate, natural resources, home industry, and living standards—as well as geography—divide it into these 9 regions. Each has its individual marketing problems, demands its specialized merchandising. Here are the vital statistics of the world's greatest market*

white-collar class of the unemployed, supervised by R. L. Polk & Co., directory publishers, will ask every twentieth housewife 19 questions, producing 90 indices regarding various phases of consumer ownership and home buying habits.

When tabulated, average figures will be available on home-ownership, make and age of automobile, furniture, radio, vacuum cleaner, other major items, origin, brands and price ranges of goods frequently bought, radio-listening habits, etc. Of the proceeds from the sale of consumer data 50% is to go to the local Relief Committee.

"Going National" Means Going To 9 Different Markets

Each economic region has its own buying peculiarities and a successful sales plan must fit them all

BEFORE they get done with the findings of our first national census of distribution, business men are going to lose the last trace of any tendency to talk of "the American market" as if it were just one big homogeneous entity. Extensive study of these findings is demonstrating conclusively that the first move toward sales planning for the American market must be one to adapt even the broadest of national sales plans to the differing conditions of its 9 separate economic regions (*BW—Jan8'30*).

The "American market" can be glibly summed up in a recital of its average annual per capita purchases of various groups of commodities as set forth in the table anchored just off the Atlantic coastline of the map on the opposite page. But the astute merchandiser knows that these figures are not good enough. Differences in climate, home industry, living standards, and wage levels make important variations from these averages in the different economic regions which are his natural major sales divisions.

Per Capita Purchases

These differences in terms of actual value of purchases and of excess over or deficiency from the national average are written across the territory of each region as it appears on the map. With the buying totals is included the average annual per capita wage for each region and its plus or minus variation from the national average of $1,265. All these figures are compiled on the basis of the 1929 Census of Distribution. If recent events have changed some of the figures, it is unlikely that they have vitiated the comparisons.

Examination of the map and its wealth of data will show that the consumer of the 6 New England states approaches nearest to the national buying standards. With average wages at $1,181 or 6% below the average for the country he can boast annual furniture purchases ($18.83) practically identical with, and purchases of automobiles, apparel and lumber and building supplies slightly above, the national averages. But his bill for food is 20% greater, for general merchandise 13% less.

Many of the regional variations can be easily accounted for; some are puzzling; some suggest that sales opportunities have not been pushed to the limit.

Underlying Factors

Differences in per capita income will immediately attract the sales department's attention. But they are not always indicative of a region's actual or even of its potential purchasing power. For instance, the West–Mid-Continent states show the highest regional wage average but their purchases of apparel are 30%, of furniture 13%, of food 10% under the corresponding national averages. The answer is that the bulk of the people of these states put their buying power in these groups of commodities into serviceable but low cost clothing, plain furniture, and only such foods as they cannot raise.

Clothes and Climate

Another obvious cause of regional buying deficiency is that which obtains below the Mason and Dixon line where a lower wage, a milder climate, a different mode of living, and a large negro population cut buying averages well under national figures. In the Southeast, with average wages down 36%, purchases of apparel are shown to be 57%, of lumber and building supplies 55%, of food 48%, of furniture 45% and of automobiles 39% off.

A study of automobile figures emphasizes some interesting discrepancies. In sparsely settled regions the need for transportation has carried automobile purchases substantially above the national average. In the Southeast and Gulf Southwest the comparison with the national figure is tied pretty closely to the difference in wage levels. In the heavy-spending East closely packed urban populations pull motor buying 6% below the national average, though wages are 9% above the national figure.

Multiplying the deficiencies from national averages in dollar volume per capita in each region where such deficiencies occur by the population of the region and adding the totals provides some interesting and suggestive totals:

	Millions
Food	$1,959
Automobiles, etc.	882
General Merchandise	786
Apparel	915
Furniture and Household Goods	370
Lumber & Bldg. Supplies	452
Total	$5,364

While these figures obviously cannot be taken as representing an obtainable latent purchasing power, since many of the deficiencies can be as easily accounted for as the shortage in food purchases of an agricultural region that raises much of its own food, they do suggest something as to the rewards that may follow the raising of wage and living standards, also something as to the possible profits of intensive marketing adapted to individual regional conditions.

Shrunken Foreign Markets

Manufacturers familiar with such figures point out that, even in 1929, the nation's total exports to all countries amounted to only $5,147 millions, that since then they have shrunk to less than half that amount ($2,424 millions in 1931); that, with new tariff walls in many countries and a world-wide tendency to foster buy-at-home movements, exports are likely to drop.

They suggest that, under these conditions, the Department of Commerce, instead of devoting over 80% of its annual appropriations to the development of foreign markets, might better give American manufacturers more help in cultivating the domestic field.

Furniture Chain Adds Self-Service Apparel Shop

A CASH-AND-CARRY, self-service women's apparel shop is to be added by Hartman Corp., Chicago, operators of a chain of instalment furniture houses,

to provide income from otherwise idle floor space.

Popular priced women's ready-to-wear apparel and specialties will be displayed on self-service racks; customers will do their own picking; personnel in the department will be limited to cashier and checkers.

The chain has in the last year closed 26 of its 58 units, mostly those located far from Chicago; now proposes to concentrate operation within 50 miles.

Furniture Makers Find New Lines Best Sellers

NOVELTY is to be the keyword to furniture sales this year if the New York Furniture Show is any criterion. Dealers who have been flocking to it (300, or nearly 20%, more than last year in the first week) concentrated their buying largely on exhibits that showed radically new lines, offered something different to arouse public interest.

Price tags have been getting close scrutiny but cheapness is not going to be a leading sales argument. Dealers told makers of low-priced "case goods" (dining room and bedroom furniture) that consumers are looking for better grades. One maker of bedroom suites ranging upwards from $26 (4 pieces) reported that $45-$49 numbers were his best sellers, plans to discontinue bottom-price lines. Others in his class are swinging to better goods. Conversely, manufacturers of top-grade furniture are reaching down into the middle stratum with considerable success.

Caution is also going to be a watchword this year. Dealers are showing a new interest in the manufacturers' reliability and financial status, an outgrowth of 2 years' experience with orders taken at prices that landed manufacturers in bankruptcy or tempted them to cheapen their goods far below the promise of their samples. Some department stores are now placing quantity orders only after they have had a representative inspect the seller's factory, look up his financial standing, banking connections, and other factors affecting his ability to deliver. Whereas this development aroused some resentment at first, it is now being welcomed as a constructive influence in the industry.

Manufacturers whose policies and lines have clicked with the buying trend are optimistic on the basis of current orders. Some are guaranteeing prices up to July, think the summer mart may even bring that much-needed increase in price schedules. This price guarantee move (90-day commitments are popular) launched at the Chicago Mart (*BW—Jan13'32*) is being featured.

Evidence of the appeal of new lines is offered by several New York exhibitors.

More Business Booked

Lloyd Mfg. Co., Menominee, subsidiary of Heywood-Wakefield Co., reports that, so far, show sales are 60% ahead of 1931 in dollar volume and further ahead in unit sales with a marked increase in carload orders. Gains are credited to novelty lines, accurate style appraisal, strict adherence to sales policies, aggressive advertising. Business booked since Jan. 1 on its patented "spring base" line, a new departure in construction and eye-appeal, on its new manganese steel base garden furniture and on special items in maple has enabled the company to put 700 men at work on full time, operate some departments on a 24-hour schedule.

The Lane Co., Alta Vista, Va., finds dollar volume 15% ahead of 1931, unit sales on the jump and new accounts coming in with the expansion of its line of cedar chests and the inclusion of a cedar "robe," nationally advertised 6-foot-high cedar cabinet.

That there is still room for innovations in the kitchen is indicated by 1,000-lot orders at the show for new items offered by the Keystone Cabinet Co. of Littletown, Pa., which also reports a gratifying demand for a new portable mantel designed for rooms without fireplaces.

The Business Week

MEASURING THE SALE—*Screen cloth sales involve odd quantities; measuring and cutting annoys dealers; handling, waste, cut into their profits. American Wire Fabrics (Wickwire Spencer subsidiary) devised this tape measure rolled into the screening; dealers cut off tape and all, use the tape to tie the rolled-up screen cloth, save time and trouble*

New England Speaks Mind On Business Questions

FINAL tabulation of the New England Council's 1932 "Expression Ballots" (827 returned) shows considerable unanimity among New England manufacturers on leading national questions, a decided tendency toward comprehensive, long-term planning, and no slackening of previously reported interest in production and selling problems (*BW—Dec30'31*).

Modification of anti-trust laws is considered essential to stabilization and future prosperity of business by a vote

If you are like most American fathers you have found it easier to earn money than to save.

Metropolitan Life's contracts afford a means to

—*create estates and incomes for families*

—*pay off mortgages*

—*educate children*

—*provide income in the event of retirement*

—*establish business credits*

—*stabilize business organizations by indemnifying them against the loss of key-men*

—*provide group protection for employees covering accident, sickness, old age and death*

—*provide income on account of disability resulting from personal accident or sickness.*

Metropolitan policies on individual lives, in various departments, range from $1,000 up to $500,000 or more, and from $1,000 down to $100 or less—premiums payable at convenient periods.

The Metropolitan is a mutual organization. Its assets are held for the benefit of its policyholders, and any divisible surplus is returned to its policyholders in the form of dividends.

© 1932 M. L. I. CO.

WHEN you have furnished your wife the money necessary for the family, it takes real planning to provide also for expenses bound to come in the future.

If you have a wife who shares your ambitions and responsibilities, let her join with you in building for the future. She may be more willing than you to begin in a small but effective way.

All over this country and Canada there are millions of husbands and wives who found it difficult to save money until Metropolitan Field-Men showed them how to think in terms of ten cent pieces and dollar bills, which they had, instead of one hundred dollar and thousand dollar bills, which they didn't have. More than that, Field-Men collected the small sums each week and placed them under the care of the largest financial institution in the world.

You know of households left penniless, broken up and scattered. But there are millions of families which are insured against such tragedy. Furthermore, they are building thrift funds to be paid to their boys and girls when they grow up.

You can plan for future protection and thrift funds for your children, wife and self whether you pay weekly or monthly, quarterly or yearly—and have your choice of Endowment, Whole Life, or policies paid up in a specified number of years, according to your family needs.

For policies in any amount, talk to a Metropolitan Field-Man or write

METROPOLITAN LIFE INSURANCE COMPANY

FREDERICK H. ECKER, PRESIDENT · · · ONE MADISON AVE., NEW YORK, N. Y.

J. Walter Thompson Company

Product research · study of markets and merchandising · complete advertising service in newspapers, magazines, radio, and outdoor. An organization of more than eleven hundred people, located in twenty-two offices in the market centers of the world

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International News

PROTEST MOTOR TAXES—*Automobile men gather in the gloomy, black walnut Ways and Means Committee Room to tell congressmen they shouldn't tax an industry so important to reconstruction. Standing, left to right, are Alvan Macauley, president of Packard and the N.A.C.C.; George M. Graham, of Rockne; Alfred P. Sloan, Jr., president of General Motors; C. W. Nash, Nash Motors; Roy D. Chapin, Hudson chairman; W. C. Cowling, Ford sales manager*

of 614 to 58, and by a vote of 640 against 17, trade associations are urged to broaden their constructive activities, promote long-term planning, better management.

The question of loss leaders, below-cost selling, finds 358 in favor of governmental regulation and 295 opposed, while 423 want adjustment of the tariff by commission, 245 want tariff reductions, 33 want increases, 216 want present schedules left undisturbed.

The Swope plan (*BW—Sep30'31*) finds opinion almost evenly divided—272 against it, 270 in favor.

Extension of the Hoover moratorium is favored by 527, opposed by 123, but 401 want war debts scaled down, 91 want them cancelled, 234 undisturbed.

While 539 of these manufacturers feel they should provide maximum security of employment, special reserve funds for this purpose are favored by only 328 to 213. Plans for state unemployment insurance are rejected by 505 to 39, for federal insurance by 484 to 46.

Depression Remedies

Evidently convinced that depression periods are inevitable, 511 favor, 144 oppose, reservation of public works construction for such emergencies; 527 to 48 favor vocational guidance by educational institutions; 509 believe that all banks should be members of Federal Reserve System, 106 are opposed. Only 71 favor restrictions of labor-saving machinery, while 560 object.

To check credit inflation 442 want bank loans on common stocks determined by actual 3- to 5-year average earnings, and 157 oppose this suggestion; 412 against a favorable vote of 20 propose to prohibit call money loans from manufacturers' surplus; 379 want instalment selling curtailed, 197 do not; 375 favor establishment of a national real estate mortgage bank, 168 oppose.

In the business under their direct control these manufacturers propose to do more long-term planning, sales forecasting, budgeting of production and finance, systematic adjustment of production to distribution.

Their answers to questions in the field of marketing definitely favor better control of expenses, new products, market analysis, concentration of sales effort on profitable products-accounts-territories, increased advertising.

Motor Buyers and Sellers Wait "To See What Ford Will Do"

THE automobile world is "waiting to see what Ford will do." With both a 4 and an 8, it is freely admitted in Detroit that whatever he does will have an effect on every car under $1,000, which means that current production schedules are darkened by a large cloud of uncertainty.

Holding the key cards, the gentleman from Dearborn continues to play them close to the chest. Of plans and probabilities, only this much is known: the 8 is delayed pending decisions on the power plant; the 4 ("Model B") is due about March 1, and 10,000 new motors are already on the way to branch plant assembly lines. Both 4 and 8 are expected to have the same chassis; commercial cars to be powered exclusively with the 4.

Model B, to follow the Ford philosophy of transportation at minimum cost, will have to be sold at prices lower than Model A. Willys-Overland has set the pace by reducing all prices $100; this makes the Willys 6 roadster at $415 f.o.b. the cheapest car in the market.

The coming of the Model B is likely to be the signal for a general price drop. Although makers have already shaved profits thin, increased competition will force it, lower material costs justify it to some extent.

Ford's being temporarily out of production is at once a help to competitors, and a hindrance: prospects want to see what the new Ford looks like.

Chevrolet turned out 60,000 cars in January, is scheduled for 57,000 in February. First 3 months' production of the new model will total about 175,000.

January total production of the industry was about 150,000; February will run about the same; first quarter output is likely to total around 550,000.

Studebaker Helps Salesmen Tide Over Lean Months

To incite its salesmen to greater efforts as well as to provide them with a more stable income throughout the year the Studebaker Sales Corp. has developed a new sales plan unique to the automobile industry, at least.

Salesmen who sell 20 cars or trucks during the first 9 months of the year and who complete the company's retail sales course are eligible for membership in a "Master Salesmen's Club." A cash credit is set up for each club member on every new Studebaker car or truck which he sells. After Sept. 1, the amount then standing to each salesman's credit will be distributed to

him in 3 equal monthly instalments. If the 1932 sales objectives are reached the fund will total $300,000.

Such monthly payments in the last 3 months of the year will be particularly welcome as sales normally are low during this period and salesmen working on a commission usually have to do some fancy budgeting to tide them over until spring business returns.

Despite Troubles, Industry Yet Believes in Employee Ownership

Conference Board survey shows many different solutions of problems created by heavy price decline

THE 2-year decline in stock prices has brought plenty of trials and tribulations to employers who sold stock to employees as a means of strengthening their loyalty and to provide them with better-than-average return on their savings. With rare exceptions, stock prices today are well below those paid by employees. Enforced layoffs, wage cuts, and part-time employment have made it difficult or even impossible for employees to continue payments on their subscriptions.

To find out how different companies have attacked the many vexing problems this situation develops, the National Industrial Conference Board has compiled detailed information from 65 companies. The most important fact brought out is that despite present troubles, corporations still believe in the essential soundness of the plan. Extension of stock-selling plans has been halted, many plans have had to be drastically deflated, but when business and earnings are good again, most employers expect employee-ownership plans to spread, perhaps under more careful restrictions than before.

Whose Responsibility?

The first problem in these times is what to do for employees with paid-in-full stock who wish to redeem it to get cash for current living expenses. Most companies waive responsibility in such cases, believe that since both parties have fulfilled their obligations, the employee stock owner must stand on the same footing with other owners of the company.

Not all companies follow this policy, however. One employer pointed out that the primary idea was to foster loyalty and cooperation; that if the employee loses money through a forced sale of his stock, it will hardly improve morale. So this concern and several others stand ready at all times to repurchase employee-owned stock at the price paid for it, charging the loss to better industrial relations.

In detail, 39 of the 65 reporting companies do not repurchase paid-up stock; 12 have not had to decide the question; 1 will repurchase within 2 years; 2 repurchase from employees leaving the company; stocks of 2 more have not yet fallen below the employee selling price; 5, with no repurchase guarantee, have nevertheless repurchased stock from distressed employees; 4 repurchase stock at any time on request.

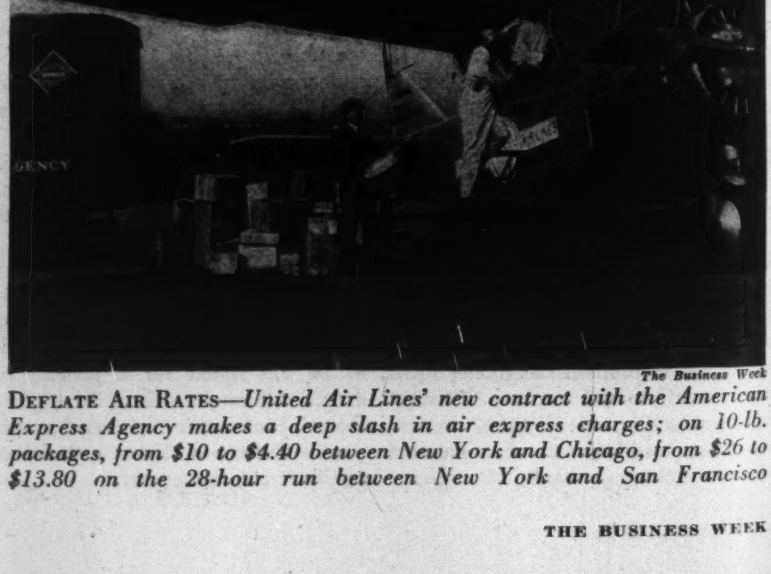
Prices paid for repurchased stock vary; 6 buy at prevailing market price; 3 buy at price paid by employee; 2 pay more than the original price; another pays the original price within 2 years; still another pays original price less $1; 3 redeem at the original price if employee is in distress, otherwise at market; 2 at par plus accrued dividends.

Most companies permit cancellation of subscriptions and return employees' payments with interest. Of 18 companies which pay interest on deposits returned, 2 pay 4%; 9, 5%; 7, 6%. Some companies have made it easier for employees to carry subscriptions by requiring only half the stipulated payments and extending the time; others have suspended plans until normal conditions return.

Cancellations vary widely among different concerns, depending upon employment conditions. Where work has been steady and wages have been maintained, cancellations are few; under opposite circumstances they have run high enough to cause plans to be suspended. The fact that some companies sold stock to employees at less than market prices, or offered extra inducements of various sorts, makes the current position of many plans less precarious than comparative market prices indicate. Thus a railroad stock sold to employees for $50 when it was quoted at $75 is now selling around $32 which is 43% of the former market price but 65% of what employees paid for it. Employee owners are in the red, but not so much as others.

Umbrellas Opened

Many companies feel no regret at cancellations of stock subscriptions but make it easy for employees to redeem their payments. They believe that saving for a rainy day is a major purpose of the plans, so that with the rain now falling the umbrellas should be raised. Support of employee stock bought in



The Business Week

DEFLATE AIR RATES—*United Air Lines' new contract with the American Express Agency makes a deep slash in air express charges; on 10-lb. packages, from $10 to $4.40 between New York and Chicago, from $26 to $13.80 on the 28-hour run between New York and San Francisco*

open market has been costly for companies that tried to protect their workers against loss. One thus wrote off $80,000 in 1930. The firms that issued treasury stock are not so badly off; those which bought stock in the market for resale to employees have a stiffer problem.

Summing up the returns, the Conference Board concludes that, on the whole, management has followed a liberal policy in meeting the emergency situation. At the same time it appears that employees have accepted the depreciated value of purchased stock philosophically and realize it is not the fault of management. Instead of creating animosity, the plans seem in many plants to have added to a mutual understanding of each other's problems by managements and employees.

Concentrated Fertilizer Muscle Shoals Candidate

A CONCENTRATED fertilizer containing 4 times as much nitrogen, phosphoric acid, and potash per unit of weight as ordinary mixed fertilizers, uniform in composition, dustless, non-caking, and possessing unique properties for uniform distribution in amounts as low as 5 lb. per acre, has been developed by Swann Chemical Co., Birmingham, Ala. It is the first of its kind to be devised in this country.

Production at prices competitive with mixed fertilizers requires cheap power. And with the aid of Muscle Shoals, Swann officials believe they could sell it on a plant food basis at a substantially lower price than that now prevailing in fertilizer markets.

In its recent report the Muscle Shoals Commission recommended production of fertilizer concentrates as the prime objective of the Tennessee power project. The published report includes a number of illustrations which seem to apply to the Swann process and informed opinion believes the commission had it specifically in mind when making recommendations.

Agronomist opinion has tended to favor use of concentrated fertilizers, not only to eliminate the shipping cost of the 80% inert matter included in mixed fertilizers, but to obtain more uniform results. More recently, however, there has been a reaction and some authoritative opinion has returned to favor mixed fertilizers because of the possibility of applying lime, magnesium, and other needed ingredients with it. Swann cites results of many tests to prove the superiority of its new product.

These two
NATIONAL SERVICES . . . .

Have stations in the Conkey shipping room— for your service!

Conkey service is more than a mere book and catalog manufacturing service . . . The central location of the Conkey plant, its size, its arrangement, management, personnel, and mechanical equipment permits it to offer the book and catalog buyer ample storage and shipping service . . . This shipping service is sufficient to warrant your consideration . . . For here, in the Conkey shipping department you will find books being shipped by mail and express to all parts of the World upon the customer's order . . . Consider only the savings in shipping costs which doing business with Conkey makes possible and you have sufficient reason for using Conkey as a source of supply! . . . Complete and detailed facts as to how Conkey can serve you in the manufacture, storage and shipment of catalogs and all other forms of "Buying Literature" is available to you in any one of a number of Conkey booklets which will be sent you on request.

W. B. CONKEY COMPANY
HAMMOND » » » INDIANA
Printers, Binders and Book Manufacturers Sales Offices in Chicago & New York

USE "BUYING LITERATURE" AS WELL AS "SELLING LITERATURE"

Make

A case in point inspired by advertising

Some weeks ago McGraw-Hill received a long distance call from the president of a medium-sized manufacturing concern. He had read our advertisements in The Business Week and the advertisements of different McGraw-Hill publications in the advertising journals.

He had spent thousands of dollars yearly on advertising that was hooked to no sales plan. He was wiping the slate clean and starting over. New products were in the making. Could McGraw-Hill help him start right?

Three McGraw-Hill departments are now working with this manufacturer—(1) the Marketing Counselors Staff, studying industrial markets for existing and proposed products; (2) the Sales Staff, assisting in setting up a selling organization and promotion program; (3) the Editorial Staff, reviewing production and management methods found profitable in other plants.

Some advertising agency should be doing this job instead of a publisher. But this illustrates how McGraw-Hill is organized to help advertising agencies and their clients set up effective selling programs in industrial markets.

McGRAW-HILL

New York · Boston · Philadelphia · Washington · Greenville

Business men, industrialists and engineers—500,000 of them—regularly read the McGraw-Hill Publications. More than 3,000,000 use McGraw-Hill books and magazines in their business.

Radio Retailing
Food Industries
Chemical & Metallurgical Engineering
Electrical World
Electrical Merchandising
Electrical West
Electronics

it a *leap* year

. . . *in sales!*

Leap year means just another day in February to most people. But alert business men are using that word leap as a mainspring for the cash register in 1932—by developing new ideas and new products.

Here are a few cases where companies have stopped talking about the depression and done something about it. They have had the ingenuity to conceive new products, the courage and faith to market them now.

One company booked more orders in one month than in any previous year by bringing out new automotive devices.

Another introduced a new pumping unit for gas stations and sold over a million dollars' worth in the first year.

Another sold its new refrigerating devices to one out of every six prospects.

Still another, with an introductory campaign, brought back 700 orders, representing 25 different uses for its new varnish.

Take a tip from these successful organizations. Don't pigeon-hole that new product "until business comes back." Market it now and *bring business back.* Your business needs the stimulus of a new and better product today more than ever. Offer your customers something better than your competitors and you'll find plenty of takers—as these companies did.

If you sell to business and industry, the McGraw-Hill organization stands ready to help. Its Marketing Counselors Staff has valuable information on the markets you're trying to sell. Its magazines offer a direct, economical route to your prospects, with a minimum of waste circulation.

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QUIETING THE MILKMAN—*Rubber tires for the wagon, rubber heels for the milkman, rubber silencers for the bottles are part of Borden's campaign to keep the customers asleep and the good-will quietly effective*

Soft Drinks, Visibly Prosperous, Fear the Coming of Taxation

But war tax experience shows low potential revenue, high cost of collection, hardly justify nuisance

LAWMAKERS with ravening deficits on their heels are prowling the tangled trails of industrial statistics seeking victims for further taxation. With hard liquor sterile of revenue, they are discovering an industry which has profited by prohibition. Uncomfortable in the glare of their scrutiny stands the soft drink business, which right now finds itself embarrassingly prosperous.

No tax proposal before the present Congress nominates soft drinks. But some one is likely to propose it before the session closes.

During 1931, legislatures in 13 states sought to put sales taxes on bottled and fountain drinks. All these levies were defeated. Fights are still on in Virginia, Illinois, New York, Tennessee.

The record of experience of the war tax on soft drinks is not brilliant. The 1918 Revenue Act levied 10% on gross sales of carbonated beverages. In 1921 Congress taxed syrup and carbonate acid gas for beverages, and repealed the 1918 levy. After 3 years the 1921 tax was removed. Revenue of $58,675,000 was produced in 1921, which is less than derived from the sale of snuff.

The tax was costly to collect, and a burden on the industry. If it were revived, bottlers say they would simply add it to their bills. A tax of ½¢ a bottle would mean a retail price of 6¢ for the present 5¢ bottle. Congress would have to face the responsibility of abolishing the 5¢ drink. Consumers would be sore. Proponents of the tax say the industry would return to the one-coin price for its own convenience, point out that soft drinks alone are retailed at the same pre-deflation prices.

That ogre of the industry, the South Carolina tax, was the model for legislation defeated last year in the several states. Here only have the tax hunters been able to establish such a levy and make it stick. It is damned by the industry but cherished by the politicians. Traditionally independent, South Carolina applied the new device in 1925. Five-cent bottles are taxed 1¢. There is a gallonage tax of 76¢ on soda fountain syrups. Stamps must be bought for syrup containers; inspectors check all fountains. The 1¢ tax per bottle must be paid the state before crowns can be bought for capping.

Tax Troubles

The tax drove the weaker sisters (40%) of the bottling companies out of business. It is blamed for failure of the South Carolina industry to keep pace with other states. Sales there increased only 12% while those in North Carolina jumped 26%. Other objections are: Soft bottled drinks have not increased in price since before the war. The 1¢ levy on a 5¢ bottle (now retailing at 6¢) is too heavy a percentage—20%. Competing soda fountain drinks are not assessed. Soft beverages have been classed as health foods by the Department of Commerce and should not be unjustly handicapped.

Will such nice questions of ethics and economics deter the avid desires of tax gatherers? In the desert of passed dividends the 1931 record of soft drinks stands out like a royal pyramid. The past year was perhaps better than 1930, though not up to 1929 wherein a hot summer encouraged the expansiveness of a boom demand. Company records are not to be denied. Where dollar volume is down it must be remembered that abject commodity prices may mask larger material output.

Crown Cork & Seal, purveyors of the corrugated caps worn by bottled drinks, showed a small decline: Net profits first 9 months of 1930, $1,065,070; 1931, $930,348. Net income, all of 1930, $2,155,543; 1929, $2,296,965; 1928, $2,199,551.

The Atlanta Goliath

We arrive now at the point where soft drink folk take off their hats and speak in respectful undertones: The Coca-Cola Company. This Atlanta Goliath broke all records in 1930 with net income of $13½ millions. Yet the first 9 months of that year were topped by the similar period of 1931: net income 1930, $12,080,902 against $12,600,536 last year. Here is a combination of a unique drink formula backed by profound merchandising wisdom. In its first year (1886) 25 gallons of the syrup were sold. Profits were plowed back. Advertising appropriations are now $5 millions annually. The drink is sold in 76 foreign countries where it is advancing steadily against somewhat astonished alcoholic competitors. Incidentally, Coca-Cola owes its success to its

"FRIGIDAIRE'S SAVINGS MEAN A LOT TO US . . ."

Eastern States Milling Corp.

"Welfare of our employees was uppermost in our minds when we installed our new Frigidaire water coolers. We have since found our investment a profitable one. The old method was an expensive one. In less than four years our Frigidaires will pay for themselves. Frigidaire's savings mean a lot to us . . ."

G. F. GILMORE, *Assistant Treasurer.*

There are models for cooling bottled water and models for connection to city water lines. Some models have a special locked refrigerator compartment for sandwiches and beverages. All models for cooling bottled water have a new type of faucet. It's so convenient that a glass of water can be drawn by using only one hand. Many other features have been added to the new Frigidaire Water Coolers.

He blamed his secretary, but it wasn't her fault she made so many trips to the drinking fountain. The real reason was an inefficient water cooling system. Sometimes the water was too warm, other times too cold. As a result, she drank only a sip at a time. Then in a half-hour, back she'd go again.

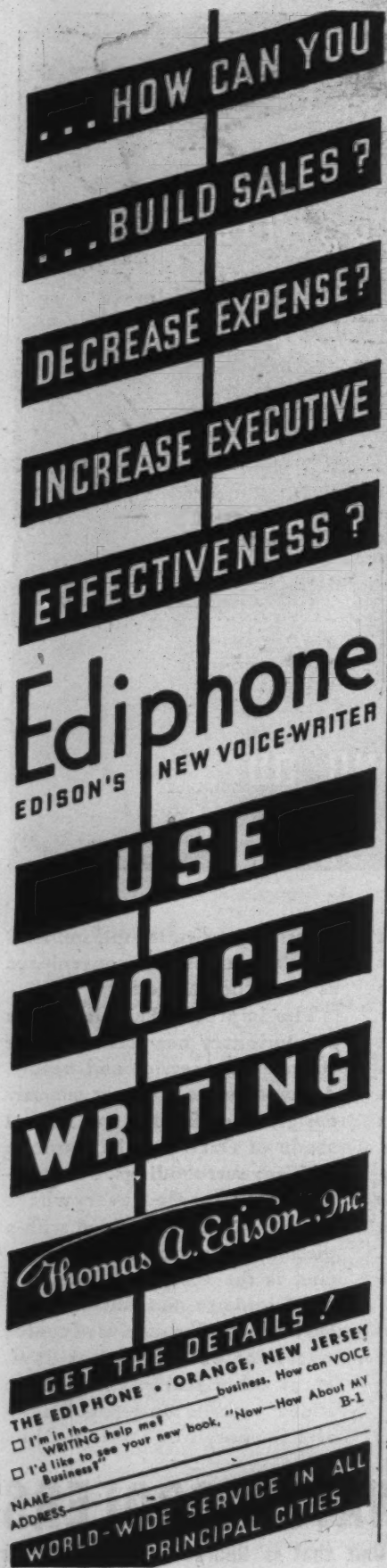
If you use inefficient water cooling methods in your office this same condition undoubtedly exists. Put this down in red ink . . . inefficient coolers are great time wasters. *And you pay the bill.*

Frigidaire Water Coolers will correct this condition in your office by providing an unfailing supply of refreshing, properly cooled water at all times. Frigidaire is less expensive to operate. And there's no muss or inconvenience as with other methods.

The improved Frigidaire sets revolutionary new standards of convenience, service and beauty. All models are compact, smartly designed and finished in a neutral shade of Duco that harmonizes with any surroundings. The cooling unit is sealed everywhere against dust and provided with a thermostat control. Most important, is the EXTRA POWER of the Frigidaire mechanism, regulated to provide a surplus of cooled water for extremely hot days. Many other features have been added . . . write for details. Frigidaire Corporation, Dayton, Ohio.

FRIGIDAIRE WATER COOLERS

Equipped with a Refrigerating Unit that is Guaranteed for 3 Years



extensive merchandising and distribution rather than "mixing" qualities.

There is a decided decrease in near beer consumption. Ginger ale has lost some ground. The larger ginger ale companies are losing to local bottlers.

New York is the big apple of the ginger ale business, has about one-twelfth the country's population, consumes one-fifth of the ginger ale total. For this rich province a battle now rages. It is Canada Dry *vs.* Hoffman.

The Hoffman brothers (W. G., A. F., G. F.) were born into the bottling business. By analyzing the market and attacking where defense was weak, they have grown, now boast unchallenged that they sell more ginger ale in the metropolitan district than any other.

The two companies went at the market from opposite directions. If a night club socked you $1 for a pint bottle of ginger ale, the chances were that it was Canada Dry, costing 25¢ at drug stores.

Through the Family Entrance

Hoffman attacked the market from below. By direct delivery and service to retailers, they aimed at the family trade. Their ammunition was a "quart," retailing at 25¢, with 5¢ returned on the bottle. Immaculate white trucks did all the delivering. Salesmen saw that grocers framed their window displays in exactly the way W. G. Hoffman had worked them out in his sample show window at headquarters. As the demand for lower prices grew, the Hoffmans thrived exceedingly. Then they started after the class market, with local magazine and radio advertising tuned to Park Avenue.

Canada Dry countered by a drive for the family trade. Last December, prices were cut for the metropolitan district only, to meet Hoffman competition. Two pint bottles sell for 25¢ with 2¢ return on each bottle. A quart bottle is priced at 25¢ with 5¢ return on the container. (Canada Dry once scorned returned bottles.) Deliveries are made direct from a New York plant by truck. Local advertising, a radio broadcast, proclaimed the new events.

Also Canada Dry pulled something new out of its sleeve by making Pale Dry available as a 5¢ fountain drink. Syrup was placed with 16 New York drug stores last summer and demand at these experimental stations, unaided by any ballyhoo, justified extension of the service. Such enterprise has helped keep up the Canada Dry volume, though net profits for the first 9 months of 1931 were about half the $3,402,225 of the same period in 1930.

Profits of Concentration

Hoffman has succeeded through concentration on the fabulously rich market about New York City. The only expansion has been in Philadelphia, which is serviced through a warehouse. There have been rumors of Hoffman going national. "If they do," says one prophet, "they will work from centralized plants. They know the hazards of long-distance distribution."

There are in the United States 7,300 bottlers of carbonated beverages. Trend is to fewer and better plants. About 13 billion bottles of soft drinks are sold yearly in the U. S. To fill them requires 250,000 tons of sugar, 5 million lb. of fruit acid, 1 million gal. of flavoring extract. Total value of output (1929 census) was $257 millions.

Looking ahead, the industry plans: More intense research for new drinks. Protection of the popular 5¢ price. Co-operative cost accounting and cooperative advertising. Stiffening of sanitary requirements. Extension of markets by popularizing home cartons of 6 and 12 bottles. Introduction of beverages in cafeterias, etc. Next summer an attempt will be made to have drink stands at strategic points on golf courses.

Head Toward Revolution In Small House Design

PROSPECTS for evolution, perhaps revolution, in small house design improve daily. Not only are makers of steel and other building materials anxious to expand construction activities by better and cheaper housing but unusually astute business interests, normally uninterested in housing problems, have become convinced that the small house field—less than $5,000—offers opportunities of record-making size to the right product. However, most of the experiments with new materials and methods have been made on houses for sale at $10,000 or more. In this price class evolution seems possible as independent home owners, aided by open-minded architects, seek farther afield for the ultimate in house satisfaction.

But the average income of a great

majority of the country's workers is less than $2,000 a year, which means they can ill afford to spend more than $4,000 for a house—and probably $2,500 would be a fair average. There have been few experiments in this field and many observers are convinced that it promises little hope for the development of adequate houses through evolution from present designs and practices; they look rather for a revolution which will bring entirely new designs, new materials, new methods of fabrication.

Begin with Basic Needs

One well-financed group working toward this end is convinced that houses "twice as good at half the price" can be developed eventually, even though the proper combination of elements is still unknown. With several other groups seeking similar ends, it has discarded all current housing ideas, is starting from basic housing needs and applying to them all available knowledge of design, materials, and methods in an attempt to arrive at the best possible solution.

Meanwhile, evolutionary progress in the better type of house continues. The American Rolling Mill Co. design (*BW—Jan27'32*) has floors and walls of corrugated sheet steel enclosed and insulated by fibrous materials, fastened to the steel with structural adhesives. Walls of room length and story height will be fabricated in mills—perhaps with plumbing and electrical conduits in place—and will be welded together on the job in 2 or 3 days' erection time.

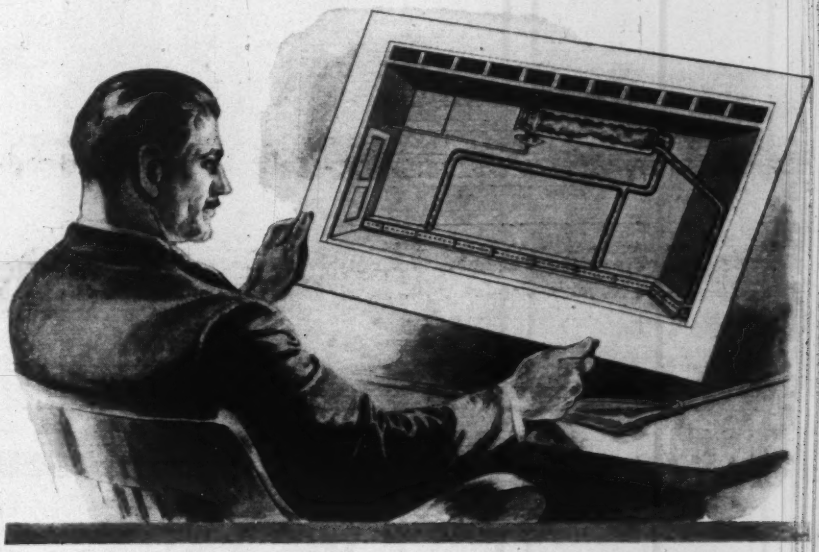
Another house to be built by Ferro Enamel Corp. in Cleveland will have steel framework; exterior walls, roof, some floors and paneling in bath room and kitchen will be of porcelain enamel. Insulation of exterior walls and rapid erection by welding features this design.

New Outlets Sought

These and similar developments are sponsored by interests seeking new sales outlets for their products. Of all the new construction ideas made public recently perhaps only the private researches of T. J. Foster, chairman, National Bridge Co., show an open-minded study of all materials and methods and an attempt to combine them in the most economical manner.

Even Mr. Foster's ideas for a skeleton frame filled in with pre-cast cementitious slabs, marked as is its improvement over usual methods, meets criticism by those who await a revolution in house construction. Objections are that it retains too much on-the-job work, does not make ultimate use of the economies offered by factory fabrication.

Manufacturer of Humidifiers adopts COPPER . . . after costly experiment



A MANUFACTURER of air conditioning equipment decided—for the sake of economy—to use a substitute metal for Copper in various parts of his Humidifier units.

He knew that the constant moisture would play hob with any rustable metal in the mixing chamber and trunk lines. But he found a metal that he thought would be satisfactory—it was claimed to be rust-resisting (not rust-proof) and was fairly inexpensive. So he used it.

No trouble developed for almost two years. Then he began to get service calls. The sheet metal parts and trunk lines that he had put in began to fail under the steady ravages of rust. There was only one thing to do—tear them out and replace them.

This time he used Copper. He also changed his manufacturing specifications—now uses Copper in all his Humidifier units. And for just one reason: he has found that it's cheaper than to pay the upkeep on some metal that "costs less"—at first.

• • •

Every year, America pays $600,000,000 for using metals less durable than Copper, Brass and Bronze. The home or factory owner pays—when rustable plumbing and sheet metal work fail. The manufacturer pays—when rustable metals detract from the performance and *salability* of his product.

Those who have had experience know that where rust can destroy, Copper and its alloys are more economical in the long run.

Frequently, too, manufacturers are able to make *savings in production costs* by using these durable metals—because less time and labor is needed in stamping, spinning, machining and finishing.

We will cooperate with you in seeking the most economical application of these metals to your needs.

COPPER & BRASS
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25 Broadway, New York

TIME HAS PROVED THE SERVICE OF COPPER, BRASS AND BRONZE

International News

QUESTIONNAIRE—*Otto Kahn (left) parries, smilingly, Senator Hiram Johnson's barrage of questions on the international banking situation*

Johnson's Foreign Bond Show Wins Applause But Misses Point

The senator has ridden his hobby away from the really important questions

SENATOR HIRAM JOHNSON'S Washington sideshow on the foreign bond traffic entitled "The Horrible International Bankers" is receiving considerable applause. It has also aroused some indignation—in which the senator is more interested. A few of the banker-performers—and Secretary Stimson—have been indignant about the inclusion of strip acts and the audience has been indignant—at times only amused—at what the stripping has revealed.

Passing the Bond

Only one act has really fallen down. When the senator attempted to stage a demonstration of bankers loaded up with foreign securities to explain their interest in governmental succor for the defaulting foreigner, he found that most of the bonds had been passed out to the audience. However, he has an idea that this flop may strengthen the moral—that American investors in foreign securities need legislative protection from the ruthless banker.

As a result of war and reconstruction sales of goods abroad, foreigners, especially Europeans, owed the United States enormous sums. They paid in part by sending us a very large amount of gold.

Gold is unprofitable if unused, and the holders used it. Expenditures for goods and investment brought a boom in the United States. At the same time, foreign countries wanted and needed to borrow for further reconstruction. They were willing to pay a high rate of interest, and high rates are—or used to be—great bait for investors.

The international bankers brought out huge flotations of foreign bonds; American investors snapped them up. To be sure, that is part of the business of bankers. There was lots of business, very profitable, and the competition was hot. At times, it was none to scrupulous. If a Peruvian President's son needed a fee, he got it. If a country was doubtful whether it needed a loan or not, there were ways to convince its rulers. And there were several strange sequences of foreign loans and foreign concessions. All good clean fun, as we understood the term in boom times—and not different from what could be found in domestic bond selling.

Then came the depression, less business, drastically lower prices. Heavy interest payments, large debts became increasingly hard to meet. Foreign countries found this out. So did domestic real estate, municipalities, railroads. Many have defaulted and, unless depression and prices lift, many more will.

Show of Jealousy

The State Department got its foot in the pot by asking, 10 years ago, that it be consulted before foreign loans were made. It wanted a club to use in foreign policy. Later it consulted the Commerce Department. Policy was never very well defined, and now interdepartmental jealousy is having a field day. What Senator Johnson thinks of the State Department is scarcely printable. But he is being supplied with all the information he needs by sympathetic employees.

Now the Senator says he wants to protect American investors. He is especially hot under the collar at the 57 foreign issues that have defaulted. He makes no mention of the 175 domestic issues listed on New York exchanges alone which have likewise defaulted, or of the fact that 4% of the investors in domestic real estate bonds will lose.

Above all, it is curious that he has missed the only point that has any future significance. He has not thought to inquire into the key question of what relationship exists between investment bankers and their clients; what responsibility rests on the seller of securities.

Johnson isn't really interested in locking the door after the horse has been stolen, though he is willing to let that appear as his motive.

Old League Bugaboo

To his mind he is showing the people a splendid example of what happens whenever the country enters into foreign entanglements. Moreover the hearings have demonstrated—at least to Johnson—a selfish reason that explains why so many "international bankers" have urged us to join the League of Nations. The whole show arouses sentiment, thinks Johnson, against entry by the "back-door"—the World Court.

That he has also embarrassed Secretary Stimson, whom he cordially dislikes; has made it more difficult for the Democrats to nominate anyone with an international viewpoint, and gotten a lot of publicity for Senator Hiram Warren Johnson is just so much velvet.

But any constructive result seems improbable. And as to warning the American public not to buy any more foreign bonds, the Senator's labors seem, at the moment, highly superfluous.

Emergency Encourages Shipping Concentration

RUMORS of Franco-German shipping cooperation persist. They grow obviously from the announced plan for closer economic-financial cooperation between the 2 countries. French shipping, despite government intervention, is in bad financial straits. And, except for the ability of the North German Lloyd's super liners—*Bremen* and *Europa*—which are managing to carry a lion's share of the transatlantic passenger traffic, German marine business is at low ebb. More than 100 idle vessels are said to be tied up at Hamburg alone.

Shipping developments in Italy have wide significance. Not only are the 850,000 tons of ships now under central control through the Italia and Lloyd Triestino cooperative agreement and subject to shifts of schedule to suit traffic, but in addition, the government has granted a "depression subsidy."

Italy's "Depression Subsidy"

More than $3½ millions have been appropriated. Vessels over 100 tons not already receiving a government subsidy will receive a premium based on a combination of tonnage and mileage. Vessels over 12 years old (very few in major services) are not included.

Besides the general depression, shipping companies recognize 4 major causes for the widening slump:

1. Rate wars, both passenger and freight, particularly in cruise business;
2. Depreciated exchanges causing large number of people in the countries affected to vacation at home;
3. Over-tonnage on almost every schedule because of uneconomic expansion in the race for national prestige;
4. Mounting and chaotic tariffs, causing a rapid decrease in freight.

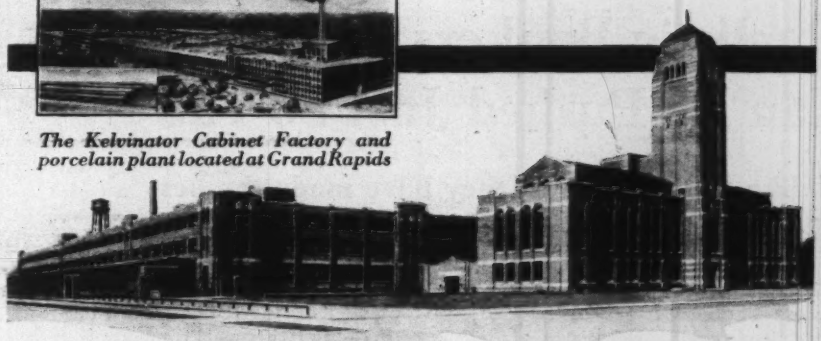
Winter Cruises Turn Into Cancellations

CLIMAX of ship troubles—following management scandals, fires, reorganizations, competition for the "fastest" or the "largest" or the "swankiest" boats—is this winter's traffic. Appraisal in Hamburg, Liverpool, Havre, Genoa, New York is that "business is rotten."

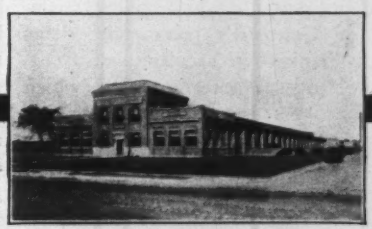
From 5, 11, 18, 27—the number of

LARGEST IN THE WORLD!

The Kelvinator Cabinet Factory and porcelain plant located at Grand Rapids



The Kelvinator Factory and Administration Building at Detroit



The Kelvinator Canadian Factory located at London, Ontario

EIGHTEEN years ago this March, Kelvinator began the manufacture of the first successful domestic electric refrigerator. To-day, Kelvinator is the largest exclusive manufacturer of refrigeration equipment in the world.

For years Kelvinator has been recognized as Electric Refrigeration Headquarters because Kelvinator Engineers have pioneered in every field where electric refrigeration is used.

The Kelvinator Line includes equipment for every electric refrigeration need. Water cooling equipment for office buildings and factories; milk cooling equipment; ice cream cabinets; truck refrigeration; equipment for grocers, butchers, florists, bakers, druggists, restaurants and hospitals; specially designed cabinets for apartment houses, and equipment for many other businesses that require electric refrigeration.

Without obligation to you, the Kelvinator Refrigeration Engineer in your city will show you how to reduce your refrigeration costs and increase profits with Kelvinator electric equipment. Look for his name in your Telephone Directory under "Refrigeration—Electric".

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(465)

winter cruises, long and short, to be cancelled is steadily mounting. The *Leviathan* is out of service until some time in April. The *Britannic* has abandoned its 2 Mediterranean cruises, is trying to keep busy on short cruises to the West Indies.

One more depression-born innovation has been announced. Cunard has announced a new class of travel—"restricted third class." What is it? "People with moderate incomes in the 'white collar' and professional groups" will be given entire third class accommodations at regular rates on several sailings next summer. Hamburg–American officials announce the same privileges on one sailing of the St. Louis.

Realistic Bankers Know Reich Can Be Pushed Just So Far

Unlike the politicians, they have made the best of a bad situation—but much depends on France

EUROPEAN NEWS BUREAU (*Radio and Cable*)—Politics has hamstrung every effort to settle the world's reparations–war debts struggle. Not so the settlement of Germany's commercial debts owed to bankers in 11 countries.

The standstill agreement—by which world bankers last August agreed to freeze their German loans in an effort to help save the Reich—has been extended 1 year from Feb. 29.

More, a plan has been arranged to amortize these debts in an orderly fashion and in the best interests of everyone, including Germany.

Set for Quick Change

If the reparations settlement comes within the year and radically changes the situation, or if, because no settlement is reached, Germany declares a complete moratorium, new arrangements may have to be made. Practical-minded, the bankers provided for this, have set up a committee of 6 to represent them, to work with the Reichsbank on possible proposals to expedite the settlement, to rush refunding or repayment if Germany is able, or to slow it down if the depression continues and the Reich gets in a pinch. As the Berlin representative of one of New York's largest banks says:

"The new agreement represents the lesser of 2 evils. It is an effort to salvage 90 cents on the dollar over a period of time rather than virtually to lose everything as we would if we attempted to prosecute claims now on which Germany momentarily cannot pay even a nickel.

"As such, it had to be assumed that Germany is a going concern only temporarily immobilized. The new agreement, with its obscure moratorium arrangement under which creditors, though safeguarded, can expect no early repayments, inevitably constitutes a compromise with which nobody is fully satisfied. However, it is as fair to everybody and as nearly in the best interests of all concerned as was possible under the circumstances."

What the new plan provides is a schedule for meeting Germany's $1.3 billions of outstanding short-term obligations over a sufficient period of time not to strain the Reichsbank or the country to the breaking point, but, at the same time, providing security for longer-term reinvestments, and apportioning the risk fairly among the bankers of the 11 countries concerned.

Several details are eagerly absorbed by the bankers concerned. They knew that under the old agreement each German bank holding foreign short-term loans was unconditionally responsible for re-extension of reimbursement credits to a third party beyond the coverage of the underlying documents.

In the new agreement, each creditor is entitled to pro rata share in whatever collateral the German bank holds against the ultimate creditor.

Creates Trust Fund

Also new, is the creation of a trust fund of 200 million Reichsmarks to which every German debtor banker must contribute. Against this fund, the Reichsbank, on request, will issue to creditors 6% trust certificates payable in foreign currencies in 20 semi-annual instalments. Experts estimate that this will mean an outgo of less than $30 millions annually while it puts on an orderly basis the repayment of bank loans.

This transfer of the short-term loans to highly secured Reichsbank certificates is especially important to Americans. If they can succeed in having these certificates discounted by the Reconstruction Finance Corporation, it will give them a chance for earlier liquidity.

Our Interest Is in Collateral

The bulk of the American commitments in Germany are represented by relatively sound commercial or reimbursement credits. The principal efforts of American bankers have been less to secure repayment and more to secure either additional or replacement collateral in order to prevent present commercial credits from degenerating into unsecured finance credits as merchandise now constituting collateral reaches consumption and passes out of bank control without corresponding extinction of the credit transaction.

But, due to the circumstance that forms of domestic paper familiar to the United States—such as railroad bills, interior warehouse receipts, attachment accounts—are unknown or non-existent in Germany (where financing is con-

Standstill Extension

(1) Amount involved: $1.3 billions—$300 millions, finance credits; $500 millions, reimbursements; $500 millions, industrial and trade credits.

(2) Present agreement expires Feb. 29. The new agreement prolongs it a year, provides optional means for funding. Given certain conditions, Germany has the right to suspend transfers, creditors to abrogate. A creditors' committee will meet quarterly, supervise joint executive action.

(3) Reimbursement credits extended 1 year. No payments before July but each creditor can reduce existing credits by 10% on Mar. 1 if he has not already received this amount in cash payments. In July creditors' committee will establish first schedule of cash payments, to be reconsidered quarterly in light of Germany's capacity to pay.

(4) Finance credits and open credits to industry payable in Reichsmarks on demand of creditors—bank credits 25% semi-annually; trade credits, 15% semi-annually. Creditor is obliged to reinvest repayments within Germany for minimum of 5 years. Trust certificates will be issued by Reichsbank (against a trust fund) payable in foreign currencies in instalments of 5% semi-annually (particularly for Americans in case certificates are made discountable with the Reconstruction Finance Corporation).

ducted through direct bank participation in the given consuming industry or is covered by deposit of collateral), the attempts failed.

British bankers, themselves least liquid, are most heavily involved in the unsound credits, and strenuously but unavailingly opposed the semi-funding arrangements for open credits whereby these may be repaid in Reichsmarks reinvested in Germany but in forms not admitting rediscount under prevailing 90-day rediscount limitation. The Swiss and Dutch held strongly for exaggerated interest rates of 10% to 12% (which would permit them rapidly to self-amortize their claims). On this no agreement was reached beyond the meaningless formula that foreign creditors may charge only the rates which are reasonable relative to their own market conditions.

French Surprisingly Passive

The French, whose stake, though small, held a nuisance value, were passive throughout the conference, agreeably surprising those expecting an attempt to play politics. But it remains that France is able at any moment to torpedo the agreement if, at any time, it withdraws its support of the $100-million Reichsbank credit which has made possible the maintenance of Reichsmark stability.

At the last Bank for International Settlements meeting, Moret, governor of the Bank of France, succeeded in making renewals of B.I.S. participation in the Reichsbank credit conditional on the unanimous renewal by all other participants. Thus, should the Bank of France decide to withdraw at any time, it would automatically force cancellation of the B.I.S. participation, and leave the Federal Reserve and Bank of England the alternative of assuming $50 millions in addition to their existing commitments, or default this vital credit representing not only one of the cornerstones of the short-term agreement but one-half of Germany's remaining and already barely adequate gold reserve.

Hold Political Lever

The power which has thus been concentrated in the Bank of France to exert political influence on Germany is obvious. According to Paris rumors, the Bank of France is expected to make a month-to-month renewal conditional on equality of the loan with short-term credits, German assurance of payment of unconditional reparations under the present re-loan system, and lastly, on reaffirmation of territorial provisions in the Versailles treaty. And Germany, in her present state of mind, may refuse.

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Germany Runs Out of Credits But Tries to Keep Soviet Trade

American business, Russian exports cut to half, watches Germany's effort

SOVIET–AMERICAN trade is in the doldrums. Russian purchases in the United States in December totaled only $469,000, brought the year's total to $51 millions, less than half that in 1930, when total Soviet purchases in America exceeded $114 millions.

In comparison with this 55% drop in purchases, Soviet sales in the United States fell off only 34%, dropped from $28 to $18½ millions. In 1930, major imports were pulpwood, furs, manganese, and casings. Last year the order shifted. Manganese headed the list, followed by coal, furs, and iron ore. Most striking import drops were in pulpwood, caviar, rags and bones, and precious metals. Outstanding increases were iron ore, canned crab, raw silk.

Americans Expected Trade Loss

This trade trend is no surprise to Americans. Moscow declared early last spring that orders would decline unless better terms were offered in this country, more willingness shown to accept some fair volume of Russian goods in reciprocal trade.

Real factor, however, was the special trade agreement signed last April with Germany. It has run its course now, and American business men are watching to see what will be Moscow's next move. After a peak of $44½ millions in June, the monthly value of Soviet orders placed through Berlin declined gradually until November when they dropped to $1,630,000. Special contracts were completed in September.

No New German Credits

Most important to manufacturers elsewhere is the fact that the Reich, due to the extreme crisis in internal finance, has now notified German manufacturers that it can no longer offer its old export guaranty scheme of 70% of the Soviet order. This makes it necessary for manufacturers to manage their own financing, anticipates less Russian business and that on short-term credit.

The Business Week's Berlin representative has made a close study of Germany's Soviet business, offers information which is a valuable guide to manufacturers, particularly since more Russian orders are likely to revert to the United States, but also because it is reported that at least a few American manufacturers have secured orders recently by way of Berlin.

In November (*BW—Nov18'31*), *The Business Week* listed outstanding maturities of Soviet bills in Germany during each quarter of 1932 at $13, $19, $20, and $39 millions respectively. This totals slightly more than $100 millions, is now substantiated in Berlin.

The German bank crisis disrupted old facilities for financing Soviet paper. German manufacturers found it difficult to discount paper even provided with Reich-guarantee. It looked for a time last summer as if some of them would have to cancel Soviet orders already accepted. Big corporations, like the electrical concerns, comparatively liquid owing to the heavy depression, were in a better position, could in most cases keep the paper in their own portfolios. But many medium-sized and small firms were in a critical position.

Soviet Bills Rediscounted

In September, in spite of its own strained position, the Reichsbank undertook to rediscount Soviet paper up to the amount of $36 millions from the orders coming under the special trade agreement. Paper accepted for discount had, however, to comply with the 3 following conditions:

(1) The bill must have been drawn in respect of orders accepted by the German manufacturer after Mar. 1, 1931, in order to prevent the credit from being used for the financing of other than the special orders.

(2) Paper to be eligible for rediscount must mature not later than June 1, 1933.

(3) Only those bills with 100% government guarantee are eligible. This means that the manufacturer had to split his bills into 2 for each shipment: one for 70% of the total amount which is guaranteed and can subsequently be discounted by the Reichsbank, and another one for 30% of the order, for which no such "privileged" rediscount facilities exist.

A formal obstacle to the rediscount of Soviet acceptances by the Reichsbank was still to be overcome. It was against the status of the Reichsbank, as the central bank of issue, to rediscount 21 months' paper. It looked bad enough that the Reichsbank, which had virtually stopped payment on all Germany's short-term obligations, should grant long-term credits on Soviet business which most other countries were unable or unwilling to grant. It was necessary to make Soviet paper "eligible" by adapting it to the formal requirements of the Reichsbank. A new banking consortium, known as "Kreditkonsortium Russland 6" was created to convert long-term Soviet paper into short-term eligible bills. The syndicate was formed by 17 leading banks, including the "Big Four."

German Scheme Explained

Paper submitted for rediscount by the manufacturer is as heretofore handled by a special financing institution, the IFAGO (Industrie Finanzierungs Aktien-Gesellschaft Ost). The original acceptance of the Soviet trade delegation in Berlin (purchasing organization corresponding to the Amtorg in New York) or of other Soviet purchasing organizations—which must, however, always be endorsed by the former—is provided with a guarantee slip of the Reich, handed to the IFAGO. The latter, if it approves of the credit and its terms, deposits the original acceptances as collateral with the Reichsbank. At the same time the manufacturer draws on one of the banks, member of the syndicate, a 3 months' draft which satisfies the formal requirements of the Reichsbank. It is being periodically renewed every 3 months until maturity of the original acceptance.

Germans themselves are asking what volume of Soviet trade they can expect to secure in 1932.

What's Ahead in 1932?

Technically, the government guaranty limit of $140 millions is absorbed. It has been declared by the Reichs that no extension will be granted. German manufacturers, however, still anticipate that the fund will work into a "revolving export guaranty fund." As rapidly as the Soviets meet maturities, they can be reissued. Conditions in Germany are too precarious to anticipate how far this will be carried out. It is true that Germany is likely to do everything possible to carry on this Soviet business because so many other export markets are being cut off.

It is more likely, however, that the business will grow if Germany finds it possible to take a larger payment directly in Soviet imports, many of which, in the form of raw materials, are welcomed by German industry.

Business Abroad—Swift Survey Of the Week's Developments

Only the extension of the standstill agreement (and this provisionally) has eased the critical situation in Europe. Until reparations are faced and settled, developments build on an artificial base. Newest hope is the projected Laval–MacDonald meeting. . . . Britain is primarily concerned over the probable 10%-15% general tariff. . . . French domestic prospects are no better. . . . Italy is urging the corporative system for more industries. . . . German industrial activity is declining, contracting the country's ability to meet debt obligations. . . . Japan is continuing the mailed fist policy in the Far East without opposition. . . . Business still hopes for a Lausanne conference.

Europe's Improvement Has Artificial Base

EUROPEAN NEWS BUREAU (*Radio*)—Business is satisfied but unenthused over the readjusted standstill agreement, is disconcerted though not downcast over the postponement of the Lausanne conference, expects nothing from the disarmament meeting at Geneva.

The international situation has become befogged and activity muffled by the general uncertainty, but at the same time it is lulled by a sense of the unreality of the whole situation. As a result the tag end of the new year optimism continues to flicker, based largely on the belief that economic conditions are ready for recovery and only are waiting for financial settlements. The worse conditions become, it is argued, the sooner will common sense prevail over political intransigence.

This boot strap of optimism is reflected in the suspension of currency speculation and the steadiness, even the rising trend, on stock markets. The latter have been given an additional fillip by the conclusion of the new standstill agreement and by reports of American offers to reimburse credits in Germany for certain classes of merchandise over and above the credits embraced in the new agreement.

Hopes for international settlements have again been rekindled by the probable meeting next week of Laval and MacDonald, and the fresh possibility that some Anglo–French agreement on a moratorium for Germany will be reached which will permit calling the delayed Lausanne conference in the near future. It is not yet generally realized that the time for an effective moratorium already has passed.

Money Markets Relax

Money markets, especially London, have notably relaxed (though as consequence primarily of restricted activity). It is possible that the long-contemplated British conversion operation will pop again into the business perspective. Sterling has ruled firm and its momentary technical position has been improved by seasonal factors, by the record income tax payments, contraction of circulation, and thawing of the Indian gold hoard.

The dollar remains unsteady after sharp weakness last week due to Anglo–French withdrawals of deposits from the United States occasioned by fears of inflation which appear now to be somewhat abated though not entirely removed. Admittedly it would take little to revive them. The conspicuous gold shipments of the Bank of France, however, have been without other than psychological effect since they represent metal previously excluded by the American, and included by the French, reserve and whose movement represents only a change in the place of storage. Moreover, a substantial part of France's foreign deposits in the last fortnight have been converted from sight deposits into negotiable investments, thus belying the supposition that general withdrawals are planned.

Commodities are somewhat more steady. Cotton tends to be strong; cereals continue to move horizontally within a narrow range; all East Indian products show pressure. Rubber is slightly but consistently weakening notwithstanding curtailment expectations. Sugar and tin dipped sharply and have recovered only partially. The Javan sugar situation is acute. Though it has been announced that 53 mills representing 50% of Javan production have foregone new planting, absorption of financing for existing yearend stocks of 2 million tons, valued at $40 millions, remains a problem.

English Tariff Plan

England's potpourri National government reached a momentous compromise agreement last week forecasting a 10% to 15% general tariff in April. Only foodstuffs are excepted and they will be regulated by quotas.

In reaching the decision, however, the government departed from all precedent by releasing the opposing ministers from the obligation of loyalty to the cabinet and permitting them to advocate their own dissenting views. Upon Parliament's decision rests the probability and kind of tariff. Eventual cabinet revision, possibly even elections, are likely, perhaps reasonably soon. Present prospect is that an out-and-out protectionistic government would follow.

The Eastern European situation daily is growing more difficult. Czechoslovakia, which last week secured a $24 million French government loan (it is surmised that it partly covers the Skoda $6 million deficit) and which hitherto has been relatively less affected by the depression than the rest of Central Europe, has been forced now to resort to import contingents. Recent clearing agreements are working badly.

Hungary has been forced to adopt further restrictions making the recent transfer moratorium tantamount to an actual moratorium, while Austria appears likely to have another Heimwehr *putsch*. The financial crisis, which now is European-wide, had its origin in this country with the collapse of the Credit-

Keystone

GERMAN QUESTION—*Hitler headquarters in Berlin raises a doubt, waives the question*

Anstalt. Similarly, the trade crisis, now spreading throughout Europe, originated in the desperate efforts of Austria and Hungary to preserve economic equilibrium by embargoing imports and commandeering export exchange. One after another each European country since has been seeking to draw into its economic skin. The extent to which the movement already has developed is evident in the following brief summary:

3 Months' Changes

In the last 3 months, 9 European countries have importantly increased tariffs; 5 have imposed compulsory utilization of domestic products; 13 have adopted or expanded import quotas, many of which are tantamount to embargoes; 7 have subjected certain imports to the control of government monopolies; 10 have subjected imports to exchange restrictions; and 7 have abandoned gold. Not only is Europe its own principal market but the principal world market for overseas exporters. This creeping paralysis which is becoming daily more absolute within Europe, is proportionally contracting world trade. Unless it is checked, its ultimate consequence inevitably must be the collapse of the present social structure.

France Strikes Hard Blow at U. S. Exports

Industry is slack and unemployment up, but stocks are steady and above yearend lows. . . . New import quotas favor German, discourage U. S., imports. . . . Pending bond issues to meet large national deficits. . . . "Back to soil" encouraged by government.

PARIS (*Cable*)—American business men in Paris are up in arms over the continued discriminatory extension of the French import quota system. Following last week's promulgation of radio contingents, whereby the United States, formerly first, is now placed in a poor third, while Holland formerly third, is placed in first (in order to favor a Franco–Dutch combine) new contingents were promulgated this week to affect meat products, condensed milk, and especially electrical equipment and appliances. The United States was accorded tag-end positions in several of these new contingents and even barred altogether in some categories, while Germany not only was accorded first place but deliveries-in-kind were exempted.

This action followed the just-announced signature on Jan. 11 of an entente of the Franco–German electrical industries, the contents of which have not been divulged. Moreover, it has been announced that the American radio contingent was exhausted even before promulgation of the quota, which means it is tantamount to an embargo until April 1.

The American Chamber of Commerce in France has taken the initiative in forming a committee not to protest the French right to adopt quotas but to contest the above discriminatory applications. There is every indication that there is a growing segment of French public opinion, where well informed, which does not support these recent trade practices.

Bourse Holds Steady

Although registered unemployment has risen 30% in the first half of January and crossed the 200,000 mark, and business indicators continue steadily downward with carloadings off 24% compared with the same time last year, the Paris Bourse is holding steady at 15% above yearend lows, but 50% below the 1929 average.

Similarly, though gold hoarding continues, confidence in banking conditions has largely recovered. Instant and effective government action when crashes were threatened last fall is credited. Unemployment, only fractionally represented in registered figures, has now become the most urgent problem. An increase in the match tax has been decreed, from which $25 millions in additional revenues are expected. This fund will be devoted to relief.

Also a bill proposing to resettle former farmers on the soil has been introduced in the Senate. Large areas of France have been deserted by the farm population and resettlement will both diminish urban congestion and increase French agricultural productivity. It is proposed that federal funds be lent through the semi-official Credit Agricole to selected individuals at low interest and on a long term.

A series of bond issues is pending. The $120 million railway order to cover part of the accumulated deficits, which were estimated at $280 millions last yearend, is being placed privately in order to clear the field for public flotation of the $100 million postal and the $8 million Credit Nationale issues.

With the gold reserve at a new record of 70 billion francs, at which it affords more than 60% cover for circulation, political and not economic considerations dictate the Bank of France's policy in recalling part of its gold deposits from New York. No intent to embarrass the United States is seen, but there is a desire to gain fuller liberty of action later when withdrawal, if now deferred, might under future circumstances be interpreted as unfriendly.

Berlin Market Firm Despite Poorer Trade

Business is spellbound by uncertainties. . . . The renewed "standstill" agreement, easy money, and firm tone on the stock market are favorable. . . . Increased unemployment, shipping and coal mining difficulties are unfavorable. . . . Whole situation artificial until reparations question is solved.

BERLIN (*Cable*)—Business and the banking community are satisfied with the new short-term credit "standstill" agreement, although they realize its possible beneficial effects are greatly paralyzed by reparations unsettlement. Criticism is practically confined to the absence of provisions lowering current interest rates.

Features of the week in Berlin are: the remarkably easy money market, and the firm undertone on the stock market in spite of the unabated decline in industrial activities. The firmness of shares also is attributed to the anticipation of further investments or re-investments by short-term creditors.

300,000 More Unemployed

The number of unemployed was close to 6 million at mid-January, which is up 300,000 since the yearend. Coal alone showed some slight seasonal recovery while the machine industry in December was working at 32% of capacity compared with 34% in November, and 38% in October. The decline in this, and other, industries is bound to continue during the next few months as a result of the higher tariff walls and of depreciated currencies.

Main black spots in the business outlook are: (1) a new crisis in public finance due to "fantastic difficulties" forecasted by the Minister of Finance in meeting growing deficits; (2) the critical position of the Silesian coal and steel industries which are appealing to the government for aid; (3) the precarious position of shipping finance.

Price deflation has brought the wholesale index for first time to the 1913 level. The price commissioner claims the cost of living is down 7% since Dec. 9, and that he expects it to be down 10% by mid-February.

Keystone

GOVERNOR MORET—*His Bank of France holds the whip hand in the $100 million credit to the Reichsbank, probably will renew its quarter share—but on a month-to-month basis so political strings can be pulled*

Britain Reports More Inquiries Than Orders

General tone good but inquiries more numerous than orders. . . . Cabinet splits on 10% to 15% tariff program; decision left to Parliament.

LONDON (*Cable*)—The general tone of business in Britain during the past week was good, though leaders admit somewhat ruefully that there are more inquiries than orders.

London was particularly stirred by developments in the government caused by the Cabinet controversy on tariffs.

Reason for the departure from constitutional practice of Cabinet collectivity is the desire to impress foreign opinion with the solidarity of the government on other aspects of the national policy. If it has accomplished this end abroad, it certainly has not at home.

"If the government is too weak to present to Europe a firm policy on reparations, and too divided to reach a common mind on tariffs, it is obviously too weak to impose the measures necessary to full restoration of national prosperity," say its critics.

The Bank of England repayment of Franco-American credits withuot a loss of gold has made a favorable impression, and is construed as a sign of unexpected strength of sterling, and of the trade balance. Exchange for payment was accumulated during a period of strong French withdrawals without adverse effect on sterling. It is anticipated that the government's £80 million credit will be repaid by the same method later. The ease of repayment prompts the expectation that Britain soon will be a lender again if reparations and war debts are eased. The exchange loss was borne by no bank, but by the government. The failure to increase the fiduciary issue to meet the emergency was especially welcomed.

Italy Adds to Jobless; Forms Metal Cartels

Business is slack. Unemployment exceeds 1 million. . . . More industries pressed into corporative system.

MILAN (*Radio*)—Generally speaking, conditions in Italy are little changed other than for the usual winter decrease of activity which has brought unemployment to the million mark, an increase of 50% over last year. Only one-fourth of these are on the dole.

Cotton mills are beginning to feel sterling depreciation. Already suspension of one-quarter of Italy's 1 million spindles and 40% of the 150,000 looms has been proposed.

The government has decreed compulsory concentration of the metallurgical companies into 2 cartels, one for rolled and the second for bar products. This marks another step in the development of Italy's corporative system, though the new cartels are initially of only 6- and 9-month duration respectively and, unlike the existing sulphur and marble trusts, do not yet operate under government supervisors.

The new agreement will restore the equality between previously associated works and independents whose price competition has been increasingly felt as consumption declined. It will also establish a fixed relation between metal and mixed producer manufacturers.

Of greatest outside interest is the fact that the move is essentially considered, by authorities in Italy, as the beginning of the eventual consolidation, rationalization, and modernization of the entire heavy industry in Italy.

Lira exchange continues to be weak, but the position of the Bank of Italy is easy. Exchange weakness is partly attributed to restrictions adopted by the export markets. The Minister of Finance has authorized that the subject of imports from those countries hampering trade payments be studied with a view to taking suitable reprisals.

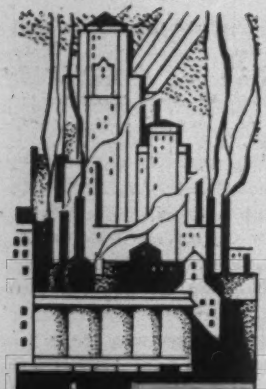
Argentina Bright Spot In Latin American Picture

Unrest threatens to spread in Central America. . . . Uruguay blocks foreign balances. . . . Argentina stirs confidence in new attempt to balance budget.

NEWS from Latin America is not reassuring. The desultory revolution in Salvador has been quelled but neighboring countries fear the unrest may spread.

From Uruguay word has come that the balances of foreign firms held within the country will be blocked by government order from leaving the country. Coming only 3 weeks after the lifting of the ban on the payment of accumulated import bills, the order has weakened confidence in Uruguay despite its favorable record in meeting its service charges on foreign loans.

Argentina continues to be a bright spot. Weather continues favorable for crops and grain prices are holding firm. Considerable confidence is stirring abroad in the country's drastic new efforts to balance the budget by means



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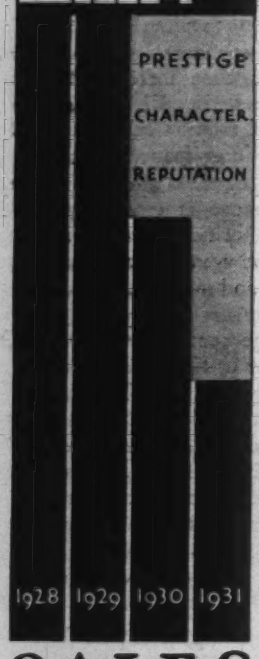

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of increased taxes, particularly on incomes.

Chilean business is only slightly more active in 1932. Failure of the radicals to carry through their strike has encouraged greater public confidence. Business, however, is still slack. Americans interested in Cosach (the nitrate trust) are in Paris attempting to negotiate for a large share of French business and are expected soon in Santiago to make certain minor adjustments in the organization with the Chileans.

New Crisis in Japan's Threat at Shanghai

Japanese stand at Shanghai threatens new crisis. . . . Chinese government attempts to end boycott likely to be ineffective. . . . Tokyo concerned over Shanghai investments but anticipates continued firm policy following coming elections.

A NEW crisis looms in the Orient, is a thraet to business. Japan's fleet at Shanghai is demanding government pressure to end the boycott. Alternative is a complete blockade of all Chinese shipping in the Far East's busiest port.

The new move is the next master stroke in Japan's "policy of firmness" in China. It can scarcely bring more than an "on the surface" result. Even if Nanking would, it can scarce take any effective measures to curb anti-Japanese feeling in China.

Tokyo, despite the uncertainty, is showing a degree of business stability. The market is comparatively steady. Stocks continue to gain slightly. Elections, now scheduled for Feb. 20, are expected to return a majority for the Seiyukai party, recently called into power. Because of the party's firm stand on foreign policy and tendency to support inflation, it is generally looked upon as a bull factor by a majority of business leaders.

Certain banking interests in Tokyo are concerned over the Shanghai incident. Japan's investments in this largest of Chinese cities are enormous. There are 3 million spindles in Japanese-owned textile mills alone. The Chinese have almost an equal number, but greater efficiency in the Japanese-controlled mills accounts for the fact they produce 70% of China's cotton goods. Not only are many of them closed now, but the Chinese operatives are thrown out of work. The future, in spite of a long period of successful expansion, is now uncertain.

The Figures of the Week And What They Mean

Business activity continues to drag along at a low level with little interest being aroused at any price. . . . Small, miscellaneous orders plus some automobile tonnage is lifting steel operations slowly. . . . Agitation for building wage reduction absorbs the construction field during the lull period. . . . Lack of industrial demand continues to becloud the outlook for coal and electric power production. . . . Carloadings made a very moderate increase. . . . The decline in currency circulation is gratifying. . . . Commodity prices fluctuate irregularly with few gains made. . . . Demand in many lines is practically non-existent.

STEEL operations during the week of Jan. 25 are estimated to have risen to 28% of capacity, according to Dow, Jones. In view of the reports of continued sluggishness in incoming orders, this increase comes somewhat as a surprise. Our adjusted index reached 38% of normal compared with 35% the preceding week.

As a whole, there seems to have been little perceptible change in the steel situation. The cutting of the dividend rate of "Big Steel" throws some light on the opinion of near term business prospects in this quarter. Considerable variation in activity is found from one steel center to another. Those districts catering to the automotive trade are somewhat better off than districts depending upon rail and structural orders. In Chicago, the dearth of rail business has forced the closing of mills for the first time in 2 years.

Automotive orders, while expanding, are showing a less rapid increase than the trade expected. But in view of the general stagnation of most business operations and the uncertainty of Ford plans, this hesitation seems in due order. Until some more definite announcement is made regarding the Ford model, it is to be expected that sales of cars in the Ford price range will be retarded. December sales based on 38 states were over 4% greater than November, but 13% under a year ago. The increase is particularly gratifying since it is the first since April, 1931.

The economy program of municipalities and states is not encouraging to steel producers, since improvement projects are likely to be slashed drastically. The federal government may also be less eager to expand its public works program in view of the gradually increasing deficit.

Railroad Prospects

What the railroads will do when the wage question is finally settled is a fruitful subject of speculation. Attention has been called to the decline in serviceable locomotives and freight cars and to the sharp shrinkage in expenditures for maintenance of equipment, ways, and structures. It is believed that any increase in traffic will put a strain on existing facilities and compel the placement of steel orders which have been eagerly awaited for months. At the moment the prospects appear none too bright.

A number of miscellaneous lines are showing signs of life, such as electrical

	Latest Week	*Preceding Week*	*Year Ago*	*Five-Year Average 1927-1931*
THE BUSINESS WEEK INDEX OF GENERAL ACTIVITY	*63.1	†64.2	79.4	.....
Production				
Steel Ingot Operation (% of capacity)	28	26	46	72
Building Contracts (F. W. Dodge, daily average in thousands, 4 weeks basis)	.....	$5,225	$9,848	$15,172
Bituminous Coal (daily average, 1,000 tons)	*1,148	1,155	1,533	1,840
Electric Power (millions K.W.H.)	1,598	1,602	1,713	1,655
Trade				
Total Carloadings (daily average, 1,000 cars)	96	95	115	143
Miscellaneous and L.C.L. Carloadings (daily average, 1,000 cars)	63	61	71	87
Check Payments (outside N. Y. City, millions)	$3,592	$3,545	$4,560	$5,535
Money in Circulation (daily average, millions)	$5,632	$5,646	$4,621	$4,679
Prices (Average for the Week)				
Wheat (No. 2, hard winter, Kansas City, bu.)	$.54	$.53	$.69	$1.16
Cotton (middling, New York, lb.)	$.067	$.068	$.105	$.161
Iron and Steel (STEEL composite, ton)	$30.00	$30.08	$31.73	$35.21
Copper (electrolytic, f.o.b. refinery, lb.)	$.072	$.072	$.098	$.143
All Commodities (Fisher's Index, 1926 = 100)	65.2	65.2	77.6	92.2
Finance				
Total Federal Reserve Credit Outstanding (daily average, millions)	$1,824	$1,855	$1,032	$1,221
Total Loans and Investments, Federal Reserve reporting member banks (millions)	$20,052	$20,287	$22,603	$21,605
Commercial Loans, Federal Reserve reporting member banks (millions)	$7,303	$7,371	$8,414	$8,664
Security Loans, Federal Reserve reporting member banks (millions)	$5,632	$5,660	$7,425	$7,021
Brokers' Loans, N. Y. Federal Reserve reporting member banks (millions)	$513	$531	$1,734	$3,437
Stock Prices (average 100 stocks, Herald-Tribune)	$92.67	$93.90	$137.15	$151.75
Bond Prices (Dow, Jones, average 40 bonds)	$80.58	$80.88	$96.65	$96.49
Interest Rates—Call Loans (daily average, renewal)	2.5%	2.5%	1.5%	3.9%
Interest Rates—Prime Commercial Paper (4-6 months)	3½–4%	3½–4%	2½–3%	4.3%
Business Failures (Dun, number)	855	781	712	627

*Preliminary †Revised

refrigerator companies, wire products, and nuts, bolts, and rivets. In 1931, tin plate producers became more important as steel consumers than rails. With prices and volume fairly stable, the container manufacturers were probably the most profitable steel customers.

Construction data from our regular source is still unavailable. Our table repeats the 4-week average for the period ending Jan 1. Data on heavy construction awards compiled by the *Engineering News-Record* indicate some improvement in all types of contracts awarded during the last week of January as compared with the preceding week, but the weekly average of January is more than 8% under December. The usual decline between these months is about 3%.

Building Wages

Reduction of building wage scales is gaining momentum throughout the country. Negotiations in New York City some weeks ago resulted in a deadlock when the unions offered to accept reductions averaging 8%-9% against the employers' demand of 25%-30%. At the annual convention of employers, plans were laid to cut the wage scale 25% by May 1 regardless of the opposition of the unions. Since 1923, building material costs have declined 33%. The 25% cut in wage rates would put this major item of building cost back to the 1923 level.

Bituminous coal production continues to lag, since neither weather nor industrial activity is providing the stimulus for increased output. Our adjusted index remains at 51% of normal for the third consecutive week. Coal consumption by Class I railroads in November showed a 21% decline from a year ago.

Electric power production declined in seasonal order so that our index remains unchanged at 77% of normal. Compared with a year ago, the decline totals 6.7%, the same as the preceding week. The Central industrial region suffered the sharpest set back from last year amounting to 9.5%. The Atlantic seaboard region is running 2.6% behind 1931.

Carloadings

Carloadings made a very slight gain during the week of Jan. 16, the gains made in miscellaneous less than carlot freight and grain products being offset by decreases in coal and livestock shipments. Our adjusted index based on the first 2 classifications rose to 62% of normal compared with 61% the preceding week.

Check payments in the week of Jan. 20 increased only fractionally compared with the preceding week. The decline in our index from 73% of normal to 69% reflects largely the dropping of the influence of the exceptionally high total of Jan. 6.

Currency circulation is very slowly declining, but is at a level 22% higher than a year ago despite the fact that general business activity is at 63% of normal compared with 79% last year. With corrections for a further drop of prices entering into living costs, our adjusted index stands at 45% above normal compared with 46% the preceding week.

Bank closings during the present month are still numerous. Estimates for the first 3 weeks total 240 with deposits involving $120 millions.

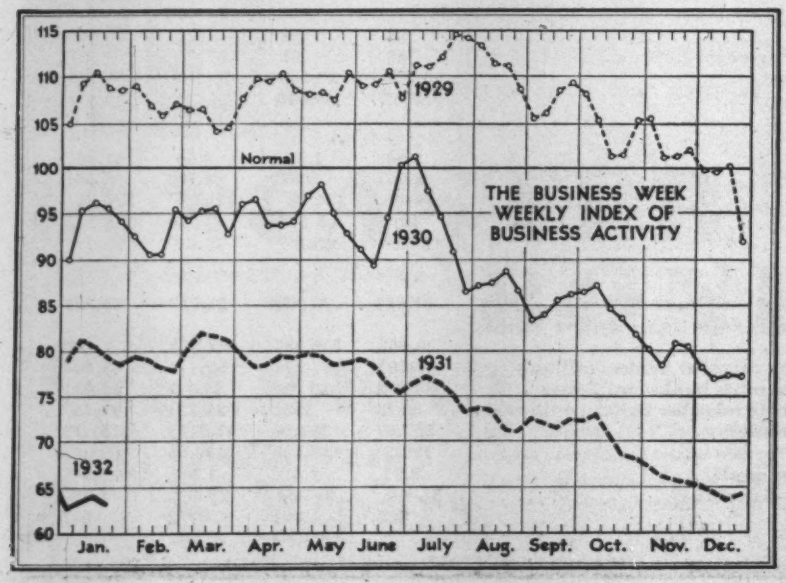
Commercial loans declined during the week of Jan. 20, due in part to the usual seasonal influences. The decline from a year ago equals more than 13%. The index remains unchanged at 14% above normal when adjustments are made for price declines, seasonal variation and long time trend.

So far this year commercial failures have completely reversed the usual trend and have gained steadily rather than declined. With the exception of the 927 defaults of the first week of 1931, the latest figure of 855 has never been exceeded. In 577 of these instances, the liabilities involved were for sums over $5,000.

Commodity Prices

The stagnation that characterizes general industrial and trade activity is also reflected in the price trends of leading commodities. The composite prices indexes have fluctuated very slightly downward in the past few weeks. In many fields, demand has been so light that no fair test of price stability is possible.

Sheet steels are still under pressure by automobile buyers. In the nonferrous metal markets, the same stagnation is apparent. Zinc sold at a new all time low, falling to 2.875¢ a pound. Lead sold in fair volume at unchanged price. Wheat and corn have fluctuated slightly downward. Silk prices declined, while cotton has been irregular. Sugar prices are weak, with uncertainty over curtailment prospects. Coffee and hides were irregular. Rubber gained.



The Index

The weekly index of general business activity, first of its kind, is compiled by *The Business Week* from 8 series of weekly figures — steel mill operations, building contracts, bituminous coal production, electric power output, non-bulk carloadings, check payments outside New York, commercial loans of reporting Federal Reserve member banks, and currency in circulation. It shows the current level of the average daily physical volume of business as compared with the normal for the season and the year. Normal, represented by 100, is what the current volume of general business activity should be if the usual seasonal changes and year-to-year growth had occurred. For further explanation see *The Business Week*, May 7, 1930, p. 39.

Trends of the Markets In Money, Stocks, Bonds

Though hoarding is checked, liquidation of bank credit is not .... Governmental efforts to stop deflation continue .... Stocks lost ground in a dull market. .... Reduction of the Steel dividend and omission of Bethlehem payments discouraged many .... Bonds again failed to gain and some weakness developed.

Checking Deflation Proves Uphill Job

THOUGH the week brought further cautious steps to counteract the destruction of credit, such steps are making very slow progress toward results. Hoarding has stopped, but the contraction of bank credit continues at the same rapid rate.

Ogden L. Mills, Under-Secretary of Treasury, lectured bankers vigorously on Monday, telling them that liquidation must stop, and that, in the final analysis, they are the ones who must stop it; the government can only back them up through the Reconstruction Finance Corp. and other agencies. Every effort continues to be made to get the Reconstruction institution into operation. Two Federal Reserve Banks, those at Dallas and at Richmond, cut their rediscount rates from 4% to 3½%, offering further proof that the Federal Reserve is now out to check deflation.

At the same time, the Administration tried to emphasize again that nothing of all that is being done is or points to inflation. This is obviously merely for foreign consumption.

Other than the 2 rate reductions the Reserve banks did nothing. Borrowings from them rose, and some bill holdings matured. The further decline in member bank reserves indicated still further liquidation. Currency circulation dropped by about the seasonal amount.

The money markets were dull with no rate changes. A demand for the best type of bills was strong, but the supply was nil. There was considerable activity connected with Federal and New York state borrowing. The Treasury is borrowing $350 millions, mostly for the Reconstruction Corp., all on short-term. For 6-month money it offered 3⅛%, for 12-month money 3¾%. New York state borrowed for 3 months at 4½%.

Provisions of the Glass Bill (page 5) caused considerable unfavorable comment, some of which made extensive use of the term "monstrosity."

Postal savings figures for December showed a further large rise in deposits. During the week the Treasury announced liberalization of its requirements for collateral for postal savings and government deposits, attempting to free more quick assets for the banks. A large rise also was shown in mutual savings bank deposits for 1931, but practically all of it occurred during the first half of that year.

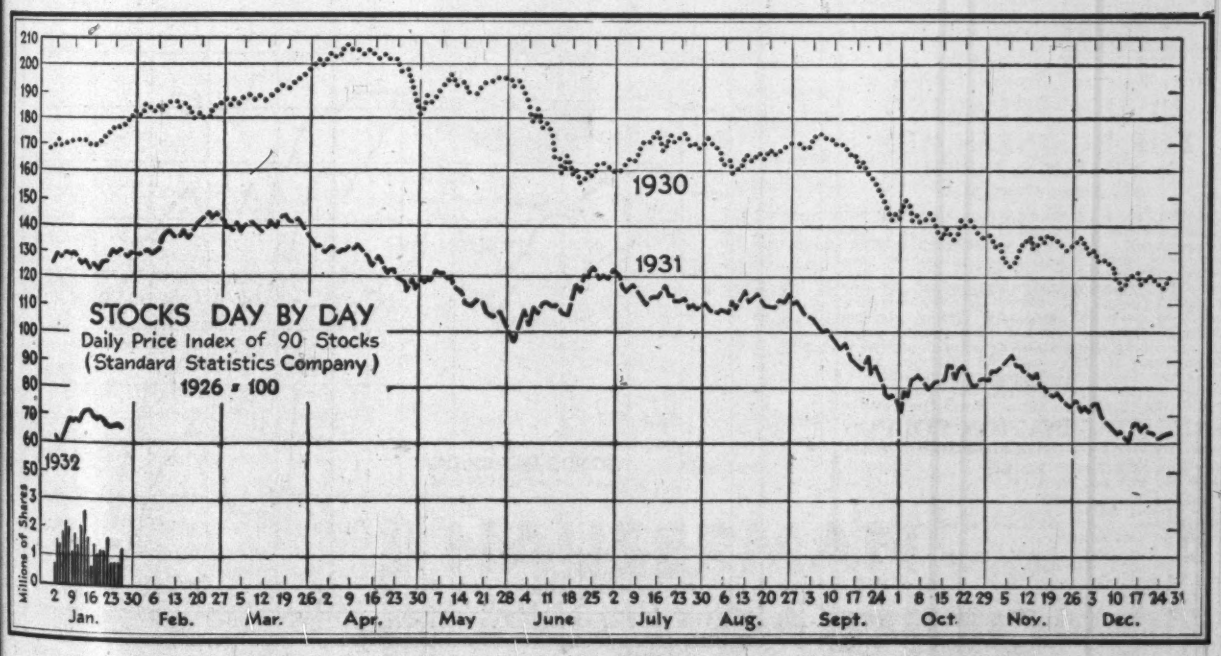
Repatriation of French funds continued, and Belgium apparently is joining the procession. France is also reported withdrawing her sterling balances via New York, in order to get gold. The Italian lira lunged downward during the week. Britain showed great dexterity in the exchange market in her preparations to meet her debt to other central banks without gold shipments.

Steel Removes a Prop And Stock Prices Sag

STOCK prices jiggled downward this week under the influence of a series of events which the market interpreted unfavorably. However, volume of trading again dropped with prices, a type of resistance to declines which has been much evident of late.

After a heavy slump attributed to disappointment over last week's passive Federal Reserve policy, the Glass Bill, further delays in the railroad wage conference and foreign settlements, the price movement flattened out.

U. S. Steel's dividend meeting after the market closed on Tuesday was the dominating influence in the first 3 days of the week. During the first 2 of these days trading was dull; speculators



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were awaiting the board's decision. When the board cut the dividend in half, published an unfavorable earnings statement and bluntly warned stockholders that no more dividends would be forthcoming if business did not improve, the market declined abruptly. Bethlehem's directors met later in the week, omitted its dividend.

The industrial group—including, of course, Steel—led the drop for the week, down almost 7%. Utilities were down 5.5%. Rails showed the least loss, being buoyed up by hope of favorable wage-cut action at Chicago and the I. C. C.'s permission to let the Southern Pacific have the Cotton Belt road. This decision relieves one of the strained railroad situations.

The outlook contains very contradictory factors. Against further deflation of credit during the past week there now are evidences of more vigorous Reserve and other banking action. Many still base high hopes on the Chicago rail meet; others feel pessimism on the foreign situation. After nearly parallel action last year—a rise then a fall—prices moved steadily upward in the trail of a spring boom for several weeks.

Bond Market Feels Little Buying Stimulus

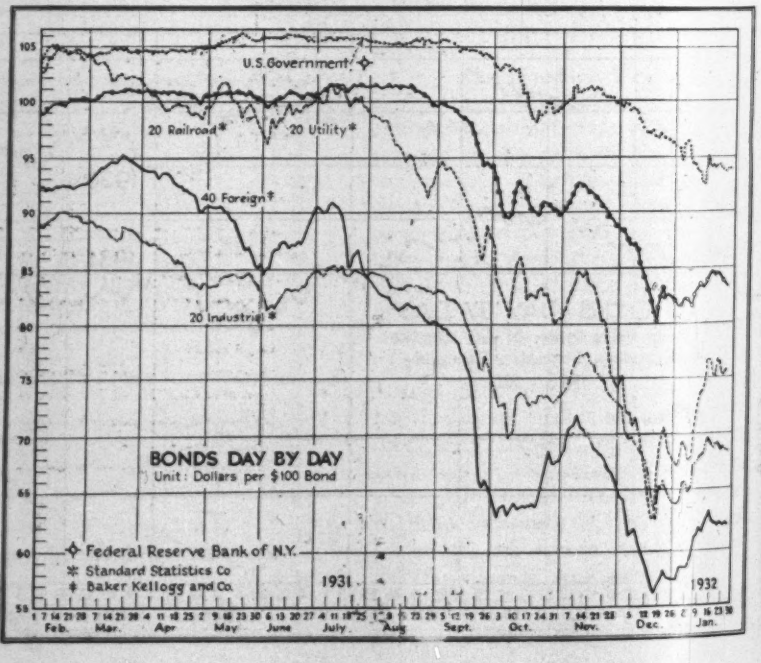
BOND prices remained, on the average, at approximately last week's levels. Weakness in some issues accounts for the very slight downward tendency shown on the chart on this page. The weakness was most noticeable in the public utility group.

Considerable speculative buying is reported in some of the [illegible] issues, especially in [illegible] classes. As noted [illegible] relief has succeeded [illegible] tion. But it has [illegible] late buying on [illegible] New indications [illegible] weakness, if born [illegible] further detriment to [illegible]

The new issue business [illegible] more active this week, [illegible] provided further evidence [illegible] favorable state of the [illegible] York City's $100-million [illegible] porate stock—virtually the [illegible] bonds—was sold after wide [illegible] New York Edison also offered [illegible] lions of refunding bonds to [illegible] On the other hand, such strong borrowers as the United States Treasury and New York State stuck to short borrowing.

Weekly bank statements showed heavy sales of government obligations. Smaller sales of other bonds were reported.

The Treasury's refusal to consider wide extension of the circulation privilege was fully to be expected. Present financial troubles are not due to any currency shortage. Proponents of the idea have short memories. It was the bond-secured currency on which the nation was relying in the earlier years of this century that caused crisis after crisis in the monetary system.



Wide Reading

WHAT[illegible]E REALLY WANTS. Mau-
ritz [illegible]. *North American Review,*
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[illegible] POLICY. *Fortune,* January.
[illegible]nd t[illegible] Federal Reserve.

A CAUSE OF DEPRESSION? ter. *Current History,* Jan- leading industrial nations, ab[illegible]e to initiate a movement [illegible]y agreement. Great Britain least temporary protection. little because France more [illegible]... o[illegible]ce has made it plain that she will [illegible]se h[illegible] political and financial power to veto [illegible]ure by Germany to secure markets [illegible]er tariffs.

IMPERIAL PREFERENCE. *The Index* (New York Trust Co.), January. What the British proposal contemplates; difficulties in the way; effects outside the empire.

NEW STYLES FOR STOVES. Louis Stockstrom. *Executives Service Bulletin,* January. A campaign for fresh interest through wide use of color and design in a utilitarian product.

AN EMERGENCY CURRENCY. Henry Hazlitt. *Nation,* Jan. 27. A thoroughly-considered plan to alleviate distress. Clear explanation of a policy widely mentioned but little understood.

WHAT HOPE FOR DISARMAMENT? André Maurois. *Forum,* February. Bright, pertinent, meaty dialogue (imagined) between a French deputy and a U. S. Senator.

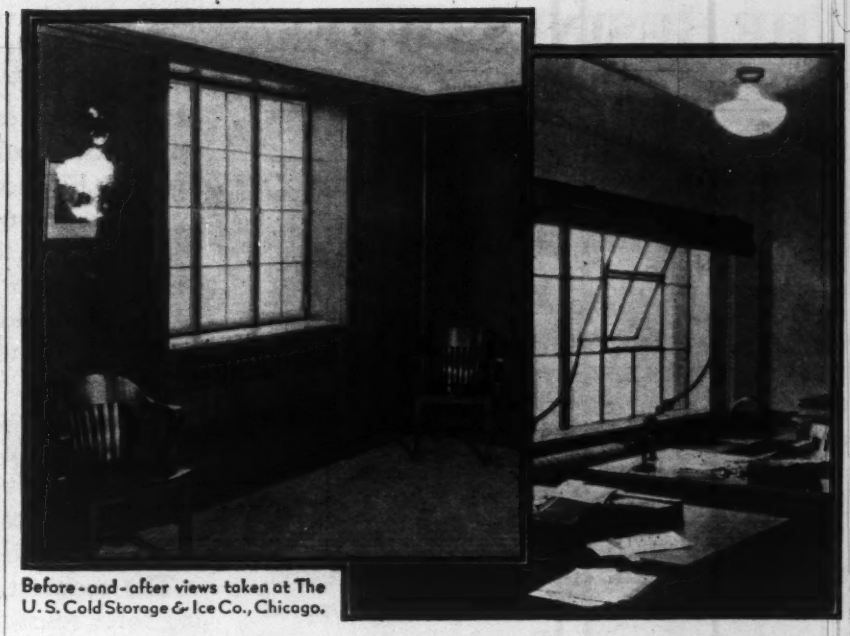
SHOULD THE ANTI-TRUST LAWS BE MODIFIED? William J. Donovan. *Harvard Business Review,* January. If so, business leaders should show constructive proof.

REPORTS—SURVEYS

THE BONBRIGHT SURVEY OF ELECTRIC POWER COMPANIES OF THE UNITED STATES. Edited by G. F. Wittig and J. A. Stuart, McGraw-Hill, 200 pp., $10. Eighth edition, covering 1931. Intimate picture of the electric light and power industry by states and communities. Kind of service in each community, financial reports of utilities companies, index for operating and holdings companies, count of central station customers by states and classes.

COMPANY PLANS FOR EMPLOYEE SAVINGS AND INVESTMENT. Eleanor Davis. Industrial Relations Section, Princeton University, 38 pp. Concrete examples of plans now in operation.

EMPLOYMENT TRENDS IN ST. PAUL, MINNEAPOLIS, AND DULUTH. William H. Stead and Dreng Bjornaraa. University of Minnesota, 161 pp., $1. Complete and detailed data by industries. Tables and charts. Valuable guide to those anticipating employment studies.



Before-and-after views taken at The U. S. Cold Storage & Ice Co., Chicago.

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THE BUSINESS WEEK

The Journal of Business News and Interpretation

February 3, 1932

Better Play With US

THE more liberal Federal Reserve policy in checking deflation and forcing credit expansion, of which there were high hopes several weeks ago, seems to have been hamstrung or deferred by fear that France will start another attack on the dollar and withdraw her liquid funds in our markets.

Postponement of such imperative action at this time is bad enough for any reason, but the possibility that it may be prompted by consideration for French fanaticism on the subject of inflation is intolerable. This country can brook no further interference in our internal financial policies by a foreign nation which for two years has obfuscated almost every effective international effort toward recovery. There is too much at stake, not only for the United States and the world but as well for France, whose inescapable participation in the depression is now being forced upon her consciousness.

It is idle to pretend that we would be better off without the gold that she and others want to withdraw. To lose it will hamper us in pursuing the policy to which we are impelled in the world's interest, and it will serve that purpose better here than it can in France. It is insincere to cajole other countries into any false assumptions about our intentions in order to satisfy prejudices which stand in the way of our own and everybody's recovery. The time has come to confront the issue squarely and to say plainly what our policy must be.

The only remaining road to recovery for ourselves and the world is by concerted and courageous action, through governments and central banks, to raise the commodity price level and reduce the value of gold to the level at which it was when the bulk of the world's public and private debt burdens were contracted. Otherwise universal bankruptcy, default, and repudiation are unavoidable.

Every means to accomplish this purpose is justified, and every influence the United States can exert in this direction as the most powerful financial force in the world today is indispensable. If it cannot be done by action of central banks, or collateral agencies like the Reconstruction Finance Corporation, in forcing credit expansion through ordinary banking channels, it must come through deliberate devaluation or direct inflation of currency.

If what mild measures have already been taken to this end in this country mean inflation to the foreign mind, let them make the most of it. There must be no mistake about our determination to do what must be done. We are anxious to do it in the most moderate way possible if other countries will cooperate, but are ready for drastic measures if they will not.

The cooperation of France as the outstanding force resisting readjustment in the value of gold is especially indispensable. True, her destructive power to draw and bury gold is swiftly coming to an end. But the world cannot wait till automatic economic forces bring her obstructive career as a gold hoarder to a close. We can cut it short, so far as it interferes with the carrying out of our policy, by promptly applying the provisions of the Mellon-Béranger debt funding agreement which permit the Secretary of the Treasury to offer for sale in any security market he may select, such as Paris, enough of the bonds of the French Republic deposited with him under that agreement to offset any gold that the French banks may withdraw.

Of course, this would be an act most impolite to so polite a nation, and quite unlikely, even for so rude a creature as Uncle Shylock. But its possibility should prompt the French people to ponder the virtues of playing that great game for freedom from the destructive forces of deflation which gold, the arbiter of destiny, has forced upon all of us.

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